

Province of  
Newfoundland and Labrador



**Public Accounts Volume I  
Consolidated Summary  
Financial Statements**

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FOR THE YEAR ENDED  
MARCH 31, 2011

  
Newfoundland  
Labrador



# **Province of Newfoundland and Labrador**

## **Public Accounts**

### **Volume I**

#### **Consolidated Summary Financial Statements**

**For The Year Ended  
31 March 2011**

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## Table of Contents

|  | Page No. |
|--|----------|
| INTRODUCTION   | 1        |
| UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF<br>NEWFOUNDLAND AND LABRADOR:                          |          |
| Message from the Minister of Finance and President of Treasury Board .....                                   | 3        |
| Financial Reports .....  | 5        |
| Financial Discussion and Analysis Report.....  | 6        |
| Glossary of Terms.....   | 6        |
| Consolidated Accrual Result.....   | 7        |
| Cash Flow Analysis .....   | 10       |
| Highlights - Financial Position .....  | 11       |
| Highlights - Financial Operations .....  | 15       |
| Key Indicators.....  | 22       |
| Financial Performance .....  | 27       |
| STATEMENT OF RESPONSIBILITY  | 31       |
| AUDITOR'S REPORT   | 33       |
| STATEMENTS:  |          |
| Consolidated Statement of Financial Position .....   | 35       |
| Consolidated Statement of Change in Net Debt .....   | 36       |
| Consolidated Statement of Operations.....  | 37       |
| Consolidated Statement of Change in Accumulated Deficit.....   | 38       |
| Consolidated Statement of Cash Flows .....   | 39       |
| Notes to the Consolidated Financial Statements .....   | 40       |
| SCHEDULES:   |          |
| Receivables - Schedule 1 .....   | 55       |
| Loans, Advances and Investments - Schedule 2.....  | 56       |
| Equity in Government Business Enterprises - Schedule 3.....  | 58       |
| Net Income of Government Business Enterprises - Schedule 4.....  | 59       |
| Payables, Accrued and Other Liabilities - Schedule 5.....  | 60       |
| Borrowings - Schedule 6.....   | 61       |
| Guaranteed Debt - Schedule 7 .....   | 64       |
| Trust Accounts - Schedule 8.....   | 65       |
| Tangible Capital Assets - Schedule 9 .....   | 66       |
| Revenue by Source - Schedule 10 .....  | 69       |
| Expenses by Department - Schedule 11.....  | 70       |
| Expenses by Object - Schedule 12.....  | 71       |
| Revenue and Expense by Sector - Schedule 13 .....  | 72       |
| Reconciliation of Budgetary Contribution (Requirement) to Consolidated Accrual<br>Results - Schedule 14..... | 74       |
| Government Reporting Entity - Schedule 15.....   | 76       |

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## INTRODUCTION

**Volume I** of the Public Accounts presents the consolidated summary financial statements of the Province of Newfoundland and Labrador. These statements are preceded by a report which discusses and analyzes the information contained within the summary financial statements. The report, entitled **Understanding the Financial Health of the Province of Newfoundland and Labrador**, provides a narrative review of the financial performance of the Province along with illustrations of key figures and relationships. This financial statement discussion and analysis, in conjunction with the consolidated summary financial statements, provides additional information for users of the Provinces' summary statements.

The consolidated summary financial statements combine the financial statements of the Consolidated Revenue Fund with the financial statements of various Crown Corporations, Boards and Authorities, as approved by Treasury Board, which are controlled by the Government of Newfoundland and Labrador. These organizations are accountable for the administration of their financial affairs and resources either to a Minister of the Government or directly to the Legislature.

These statements are prepared on the accrual basis of accounting in accordance with the Public Sector Accounting Board (PSAB) standards of the Canadian Institute of Chartered Accountants (CICA), and as outlined in the significant accounting policies of the Province. They are prepared by the Comptroller General of Finance and are audited by the Auditor General. Budget figures, where available, are provided on several statements for comparison purposes.

The Public Accounts for the year ended 31 March 2011 also includes another volume, Volume II - Consolidated Revenue Fund Financial Statements. It presents the financial position of the Fund and the results of its activities.

The Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for 2010-11 was released in August 2011 and presents expenditures and revenues using the modified cash basis of accounting. This is the same basis used to prepare the budgeted appropriations and revenues as per the Estimates. Another report containing a reproduction of the available financial statements of the Crown Corporations, Boards and Authorities was released as a separate report in December 2011. These reports are available online at the address noted below.

The Public Accounts of the Province are tabled in the House of Assembly in accordance with Section 60 of the *Financial Administration Act*.

### Internet Address

The Public Accounts are available on the Internet at:  
[http://www.fin.gov.nl.ca/fin/public\\_accounts/index.html](http://www.fin.gov.nl.ca/fin/public_accounts/index.html)

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## **UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF NEWFOUNDLAND AND LABRADOR**

I hereby present the financial statements of the Province, the Public Accounts for the 2010-11 fiscal year. To provide further information and transparency on the financial position of Newfoundland and Labrador, the audited financial statements are preceded by a discussion and analysis which highlights the fiscal health of the Province.

The 2010-11 fiscal year was again a challenging year amid tremendous global economic uncertainty. Despite the global uncertainty, the Province reported a surplus, for the fifth time in six years, of \$597.9 million, an improvement from an originally forecasted deficit of \$194.3 million. This improvement of \$792.2 million is primarily the result of increases in offshore royalties, corporate income taxes, and mining and mineral rights taxes during the year.

In these uncertain economic times, we must continue to manage our spending and financial resources in a prudent and responsible manner. While this improvement in financial position is certainly significant, we cannot lose sight of the fact that the Province's financial health is greatly affected by volatile economic factors. The strategic investments in programs and infrastructure are a testament to the efforts our Government has made to help navigate the Province through this continued period of global economic difficulty.

In addition, the fiscal management practices put in place by our Government have provided for significant progress in debt reduction, lower borrowing costs, lower taxes and an improved provincial credit rating. The Province has reduced net debt by \$3.4 billion since 2007. Further, the net debt per capita of \$15,948 as at 31 March 2011 has declined substantially in comparison to \$22,650 in 2007.

The continued improvement in financial performance positions the Province to continue on the path of responsible fiscal management through planned debt reduction and a commitment to fiscal sustainability.



**THOMAS W. MARSHALL, Q.C.  
MINISTER OF FINANCE AND  
PRESIDENT OF TREASURY BOARD**



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## **FINANCIAL REPORTS**

Information on the financial picture of the Province can be obtained from the Public Accounts and the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund.

The Public Accounts consists of two volumes. These include:

### *Volume I: Consolidated Summary Financial Statements*

- These are the combined audited financial statements of the Consolidated Revenue Fund (all departments) and government organizations (including Health and School Boards) which are controlled by and therefore accountable to Government.
- These statements present the consolidated financial position of the Province on an accrual basis, in accordance with the accounting standards established for governments by the Canadian Institute of Chartered Accountants (CICA).
- The consolidated summary (accrual) surplus for the year ended 31 March 2011 as presented in Volume I is \$597.9 million; net debt is \$8.1 billion; and accumulated deficit is \$4.9 billion.

### *Volume II: Consolidated Revenue Fund (CRF) Financial Statements*

- These are the audited financial statements of the Consolidated Revenue Fund (all departments) on an accrual basis.
- The CRF (accrual) surplus for the year ended 31 March 2011 as presented in Volume II is \$416.2 million; net debt is \$8.3 billion; and accumulated deficit is \$6.5 billion.

The Auditor General issued an unqualified audit opinion on both volumes of the 2010-11 Public Accounts.

The Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund presents the actual overall budgetary contribution (requirement) of the Consolidated Revenue Fund as at 31 March 2011.

- This report is prepared using the modified cash basis of accounting and is not subject to an audit opinion.
- The budgetary contribution of \$452.9 million for the year ended 31 March 2011 is comprised of a current account financial contribution of \$1,155.9 million offset by a capital account financial requirement of \$703.0 million.

The Public Accounts and the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund can be found on the Government's website at:

[www.fin.gov.nl.ca/fin/public\\_accounts/index.html](http://www.fin.gov.nl.ca/fin/public_accounts/index.html)

Copies of all volumes of the Public Accounts, the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund, and the Financial Statements of Crown Corporations, Boards and Authorities can be obtained at the Queen's Printer, Confederation Building.

## **FINANCIAL DISCUSSION AND ANALYSIS REPORT**

The inclusion of this report, a financial discussion and analysis of the Public Accounts, is a practice recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The Public Sector Accounting Board sets the accounting standards for Canadian senior governments.

Information provided in this report will focus on the consolidated summary financial statements of the Province. Throughout this report, any reference to a particular year means the fiscal year ended in that year. For example, reference to 2011 means the fiscal year ended 31 March 2011.

## **GLOSSARY OF TERMS**

To assist in understanding the discussion and analysis to follow in this report, definitions of the various terms used are provided below:

|   |  |
|---|--|
| <i>Accrual Basis:</i>                         | A method of accounting whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred.  |
| <i>Accumulated Deficit:</i>                   | Liabilities less total assets. This equals the net accumulation of all annual surpluses and deficits experienced by the Province.  |
| <i>Annual Surplus/ (Deficit):</i>             | The excess of annual revenues (expenses) over annual expenses (revenues).  |
| <i>Budgetary Contribution/ (Requirement):</i> | The difference between revenues and expenditure cash flows of the Consolidated Revenue Fund generated as a result of the operations of government departments during the year. |
| <i>Cash Basis:</i>                            | A method of accounting whereby revenues are recorded when received and expenditures are recorded when paid.  |
| <i>Deferred Revenue:</i>                      | Represents funding received in advance of revenue recognition criteria being met.  |
| <i>Financial Assets:</i>                      | Assets (such as cash, receivables and investments) to be used to reduce existing or future liabilities.  |
| <i>GDP:</i>                                   | Gross Domestic Product (at market prices) of the Province.   |
| <i>Interest Cost:</i>                         | Interest on the Province's debt (e.g. borrowings, unfunded pension liability), as well as other debt related expenses.   |
| <i>Net Borrowings:</i>                        | Total borrowings (debentures, treasury bills, etc.) less sinking funds. Also referred to as provincial debt in this report.  |
| <i>Net Debt:</i>                              | Liabilities less financial assets.   |

*Non-Financial Assets:* Assets consumed in the delivery of government services, but not intended to reduce existing or future liabilities. Non-financial assets are primarily comprised of tangible capital assets.

*Tangible Capital Assets:* Non-financial assets which are held for use in the production or supply of goods and services and have useful economic lives extending beyond an accounting period. Examples include buildings, roads, infrastructure, marine vessels, heavy equipment and machinery.

*Unfunded Pension Liability:* The total unpaid pension benefits earned by existing/former employees and retirees less the value of assets set aside to fund the benefits.

## **CONSOLIDATED ACCRUAL RESULT**

### **Compared to Previous Year**

The difference between the annual surplus of \$597.9 million for 2011 and the annual deficit of \$32.6 million for 2010 is approximately \$630.5 million. While additional variance analysis on the changes in revenue and expense are included later in this report, the following provides a summary of what has contributed to these changes. This increase can be attributed to an increase in total revenues of approximately \$840.4 million offset in part by an increase in total expenses of \$209.9 million.

The increase in total revenues of approximately \$840.4 million from 2010 to 2011 can be attributed to the following revenue sources:

- \$278.1 million increase in offshore royalties as a result of higher oil prices, combined with increased production, triggering higher royalty rates;
- \$176.6 million increase in the Atlantic Accord (1985);
- \$143.2 million increase in mining and mineral rights tax due to better market conditions as compared with the prior year, such as higher mineral prices and higher production levels;
- \$119.2 million increase in Federal cost-shared programs including Federal/Provincial Infrastructure programs and labour market development programs;
- \$95.9 million increase in sales tax due to higher consumer expenditure growth;
- \$69.4 million increase in personal income tax due to increased growth in personal income combined with tax cuts in the prior year;
- \$45.2 million increase in gasoline and other taxation revenue;
- \$25.1 million increase in fees and fines revenue;
- A net increase in other miscellaneous Provincial revenues of \$27.7 million; and
- \$11.1 million increase in other Federal revenue.

These increases in revenues are partially offset by the following decreases:

- \$88.8 million decrease in Canada health and social transfers resulting from a reduction in the federal program; and
- \$62.3 million decrease in corporate income tax due to revision in the Federal payment schedule resulting in a higher payment in the prior year.

The increase in total expenses of \$209.9 million from 2010 to 2011 can be attributed to increases experienced in the following types of expenses:

- \$138.8 million in salaries and employee benefits attributed mainly to negotiated salary increases, introduction of new initiatives and expansion of existing programs partially offset by the gains experienced on the value of provincial pension plan assets;
- \$52.9 million in grants and subsidies relating to an increase in activity of labour market development programs, affordable housing programs and new and existing health related programs;
- \$40.9 million in amortization of tangible capital assets as a result of investments in infrastructure;
- \$16.1 million increase in professional services primarily as a result of the new agreement reached with physicians;
- \$13.7 million increase in operating costs relating mainly to increased quantity and cost of purchased services and supplies; and
- \$0.9 million net increase in other miscellaneous expenses.

These increases are mitigated somewhat by a \$53.4 million decrease in debt expenses.

### **Compared to Original Budget (Accrual)**

The budgeted annual deficit of \$194.3 million as per the 2010-2011 Budget Speech and the annual surplus of \$597.9 million differs by approximately \$792.2 million. This difference can be attributed to an increase in total revenues of \$747.0 million combined with a decrease in total expenses of \$45.2 million.

The difference in total revenues of \$747.0 million from the original budget can be attributed to the following revenue sources:

- Offshore royalty revenue, compared to the original budget, increased by \$237.2 million due to higher production than expected;
- Taxation revenues, compared to the original budget, increased by \$487.7 million. Corporate income tax increased by \$209.1 million as a result of higher than anticipated corporate profits. Mining and mineral rights tax increased by \$152.0 due to better than anticipated market conditions. In addition, there was an \$85.0 million increase in personal income tax and sales tax, which is the result of higher than anticipated growth in personal income and higher than anticipated consumer spending. Other tax and gas tax both increased from the budget by \$33.9 million and \$7.7 million, respectively.

- Fees and fines revenue increased from the budget by \$59.6 million;
- Other miscellaneous sources of revenue, compared to the original budget, experienced a net increase of \$44.4 million; and
- \$81.9 million decrease in revenues from Government of Canada consists of decreases in health and social transfers by \$20.3 million, cost-shared programs by \$47.3 million and other by \$14.3 million. Health and social transfers decreases result primarily from the revised Federal estimate for CHT for prior years. Cost-shared programs decreases are the result of various infrastructure programs and labour market development programs. Revenues from infrastructure programs as the Canada/Newfoundland and Labrador Municipal Rural Infrastructure Fund and the Building Canada Fund have decreased due to various project delays and lower than expected project uptake. Revenues from the Labour Market Development Agreement have decreased due to revisions to certain aspects of the project.

The difference in total expenses of \$45.2 million from original budget can be primarily attributed to the following types of expenses:

- \$49.3 million decrease, compared to the original budget, in grants and subsidies due to delays in Federal/Provincial Infrastructure programs, lower than anticipated subsidizations under new and existing health care programs to third party agencies providing community and family support and lower than anticipated expenditures under various employment and labour market development programs;
- \$12.0 million decrease in professional services due to delays in alteration and renovation projects within the Social Sector; and
- \$16.1 million net increase, compared to original budget, in other program expenses.

## **CASH FLOW ANALYSIS**

The Province records its transactions on an accrual basis in accordance with generally accepted accounting principles, the timing of which may vary from when actual cash is paid or received. In 2011, the Province's overall net cash inflow was \$290.9 million. As detailed in the following chart, there was a net cash outflow of \$345.7 million in the previous year, which resulted in a difference in cash flow of approximately \$636.6 million between 2010 and 2011.

| <b><u>Cash Flow by Category</u></b> | <b><u>2011</u></b> | <b><u>2010</u></b> | <b><u>Difference</u></b> |
|-------------------------------------|--------------------|--------------------|--------------------------|
|                                     | <i>(\$000's)</i>   | <i>(\$000's)</i>   | <i>(\$000's)</i>         |
| Operating                           | 1,336,364          | 489,495            | 846,869                  |
| Capital                             | (743,643)          | (420,691)          | (322,952)                |
| Financing                           | (247,311)          | (434,378)          | 187,067                  |
| Investing                           | (54,473)           | 19,914             | (74,387)                 |
| Net Inflows (Outflows) of Cash      | <u>290,937</u>     | <u>(345,660)</u>   | <u>636,597</u>           |

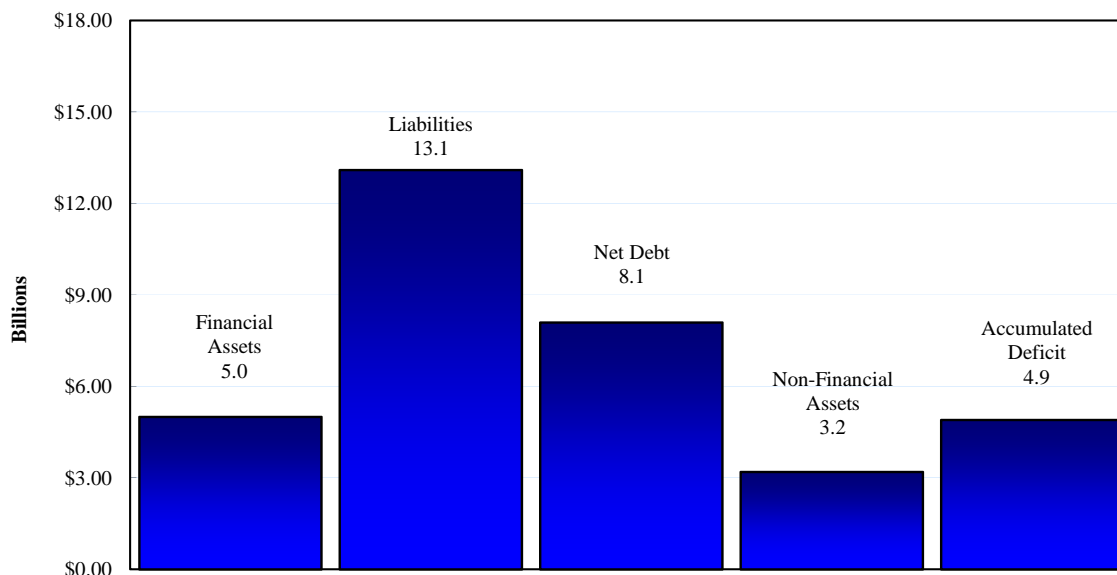
The change in cash flows was primarily driven by increased cash inflows from operations.

The increase in cash inflows from operating activities can be attributed to a surplus of \$597.9 million in 2011 compared to a deficit of \$32.6 million 2010. For further details, please refer to the 'Consolidated Accrual Result' and 'Highlights - Financial Operations' sections of this report as well as the 'Statement of Operations' and the 'Statement of Cash Flows' in the Consolidated Summary Financial Statements.

Cash outflows from capital activities were impacted due to an increase in tangible capital asset acquisitions in 2011 consistent with the Province's infrastructure investment initiatives.

## **HIGHLIGHTS - FINANCIAL POSITION**

The Province's financial position as at 31 March 2011 is presented in the following chart. As depicted in the chart, the Province's net debt totals \$8.1 billion. The net debt is comprised of the difference between total financial assets of \$5.0 billion and liabilities of \$13.1 billion. The Province's net debt, less non-financial assets of \$3.2 billion, results in an accumulated deficit of \$4.9 billion. Net debt and accumulated deficit are comprised of the following components:



| (\$ billions)                                       | 2011        | 2010        | 2009        | 2008         | 2007         |
|---|-------------|-------------|-------------|--------------|--------------|
| Borrowings (net of sinking funds)                   | 5.70        | 6.01        | 6.59        | 6.83         | 6.65         |
| Unfunded Pension Liability                          | 2.67        | 2.18        | 1.70        | 1.46         | 1.93         |
| Group Health and Life Insurance Retirement Benefits | 1.91        | 1.77        | 1.63        | 1.51         | 1.40         |
| Other Liabilities                                   | 2.82        | 2.60        | 2.49        | 3.57         | 3.68         |
| Less: Total Financial Assets                        | (4.97)      | (4.34)      | (4.44)      | (3.18)       | (2.10)       |
| <b>Net Debt</b>                                     | <b>8.13</b> | <b>8.22</b> | <b>7.97</b> | <b>10.19</b> | <b>11.56</b> |
| Less: Tangible Capital Assets                       | (3.11)      | (2.61)      | (2.40)      | (2.32)       | (2.24)       |
| Less: Other Non-financial Assets                    | (0.10)      | (0.09)      | (0.07)      | (0.07)       | (0.08)       |
| <b>Accumulated Deficit</b>                          | <b>4.92</b> | <b>5.52</b> | <b>5.50</b> | <b>7.80</b>  | <b>9.24</b>  |



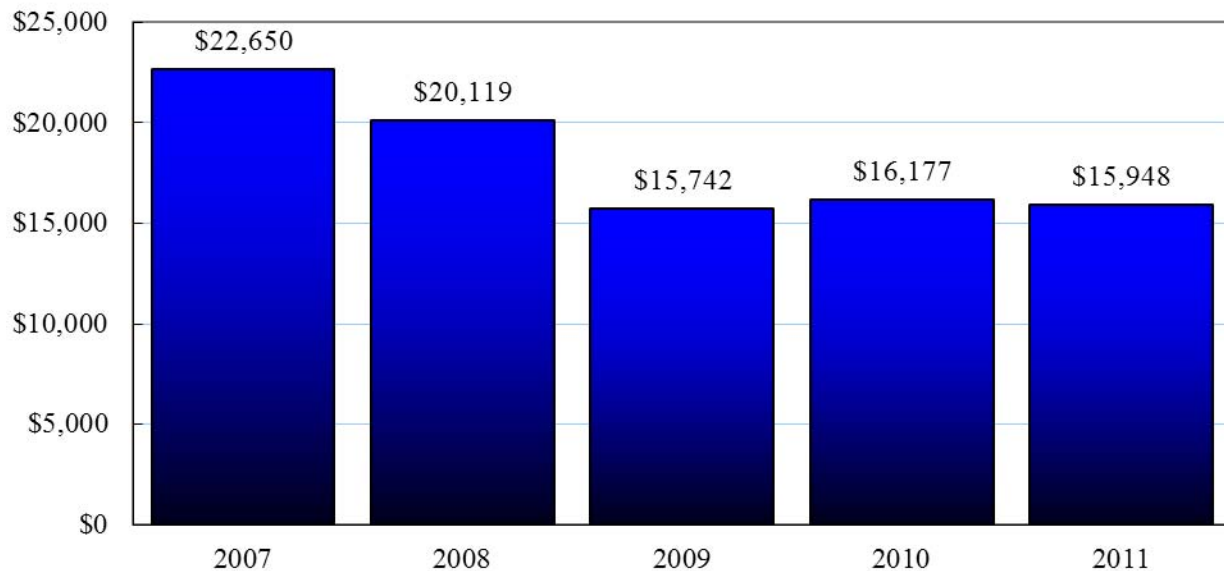
As seen in the previous table, net debt and accumulated deficit have declined significantly from 2007 to 2011. This can be attributed to combined surpluses from 2007 to 2009 and in 2011 of approximately \$4.5 billion partially offset by a deficit in 2010 of \$32.6 million. Although net debt is considerably lower than in 2007, the Province still has significant debt.

### Net Debt and Net Borrowings

For the fiscal year ended 31 March 2011, net debt of \$8.1 billion included net borrowings of \$5.7 billion. Both the net debt and net borrowings for the fiscal year ended 31 March 2011 decreased from the previous year by \$90.8 million and by \$315.7 million respectively.

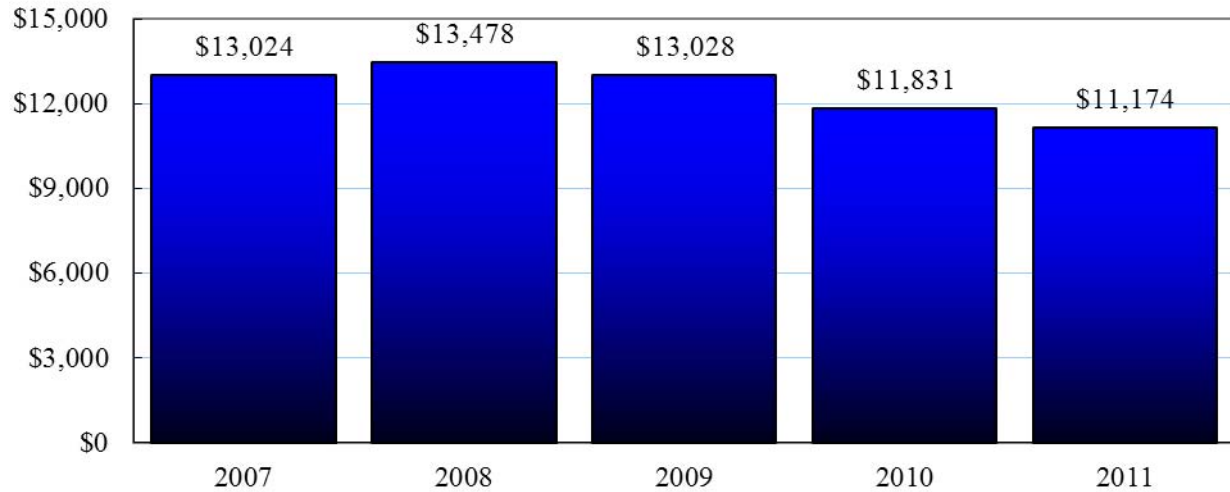
#### a) *Net Debt per Capita*

Net debt per capita indicates the average amount of the Province's net debt owing by each citizen of the Province and is calculated by dividing the net debt by the Province's population. Each citizen's share of the net debt decreased in 2011 in comparison to an increase in 2010 after three years of decline. As presented in the chart that follows, it decreased from \$16,177 in 2010 to \$15,948 in 2011. This decrease of \$229 per person is a result of the previously noted decrease in the Province's net debt partially offset by an increase in population of 1,596. The decrease in the current year is consistent with the substantial decline over recent years which has seen net debt per capita in excess of \$22,000 in 2007.



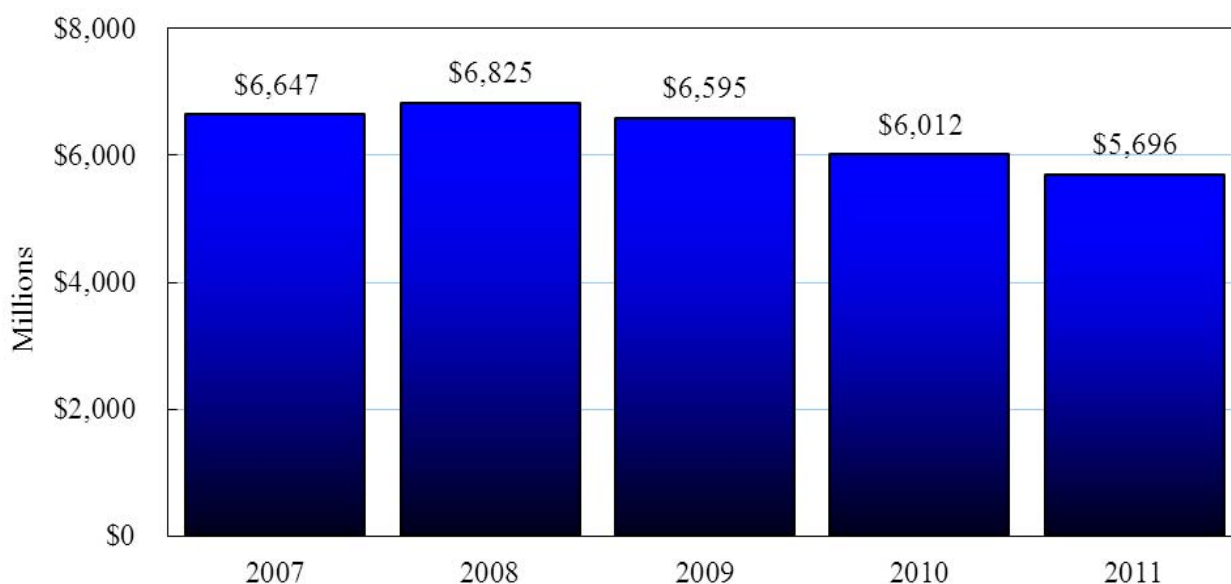
**b) Net Borrowings per Capita**

Net borrowings per capita indicates the average amount of provincial debt owing by each citizen of the Province and is calculated by dividing the net borrowings of the Province by its population. A decrease in net borrowings in 2011, in addition to an increase in population, has resulted in a decrease in net borrowings per capita of \$657 since 2010. The net borrowings per capita are presented in the following chart.



### c) *Net Borrowings - 5 Year Comparison*

As presented in the following chart, net borrowings of the Province decreased in 2011 by \$315.7 million. Net borrowings of \$5,250.2 million of the Consolidated Revenue Fund represented the most significant amount of the total net borrowings at 92.2%.

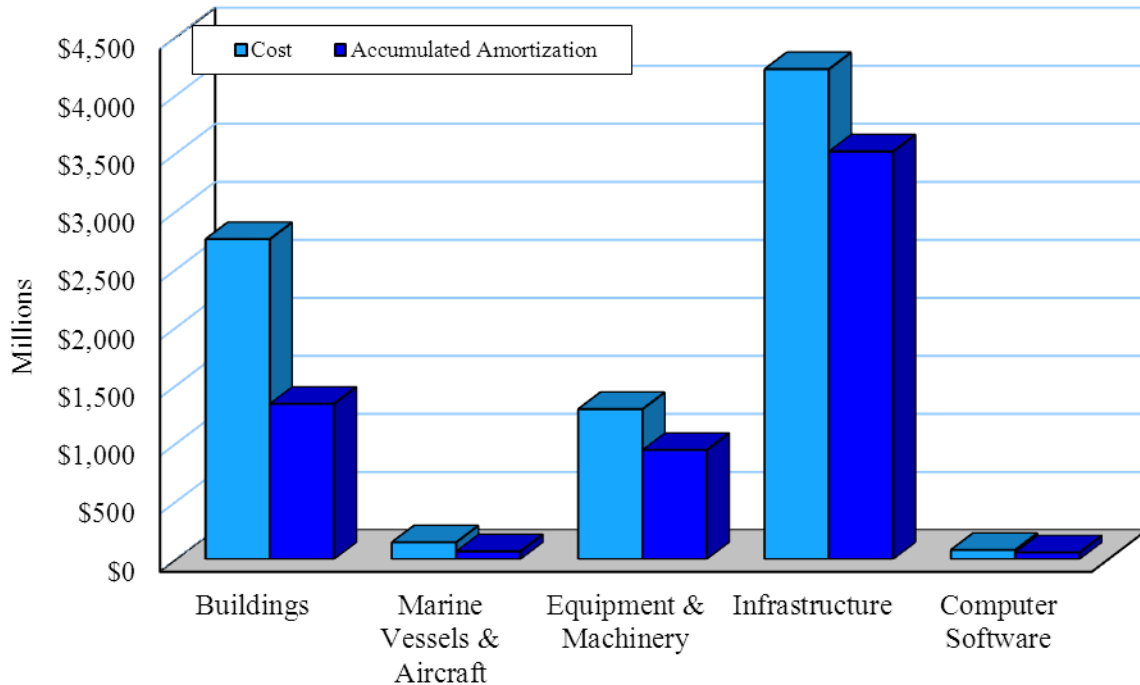


### **Non-Financial Assets**

The total non-financial assets of \$3,208.5 million in 2011 include prepaid and deferred charges of \$45.8 million, inventory of supplies of \$49.3 million and tangible capital assets, the most significant component, of \$3,113.4 million. The net book value of the tangible capital assets increased by \$499.0 million from 2010. Analysis of the information in the consolidated summary financial statements related to tangible capital assets follows:

- The increase in net book value of tangible capital assets is the result of acquisitions of \$746.5 million in the current year that more than offset disposals and net accumulated amortization;
- Accumulated amortization of tangible capital assets represents 65.5% of the cost of tangible capital assets, which is a slight decrease from 2010. The most significant of the asset categories that are amortized are infrastructure and equipment and machinery where 83.2% and 72.7% of the original cost have been amortized respectively;
- The accumulated amortization as a percentage of total original cost has decreased slightly from 2010 as a result of an increase in acquisitions and an increase in work in progress; and
- Work in progress assets consist of \$534.4 million as at 31 March 2011 which is a \$97.1 million or 22.2% increase from 2010. Work in progress is considered to be a tangible capital asset; however, it is not subject to amortization as it is not currently available for use.

The following chart shows the tangible capital asset cost (excluding work in progress) and accumulated amortization by category at 31 March 2011.

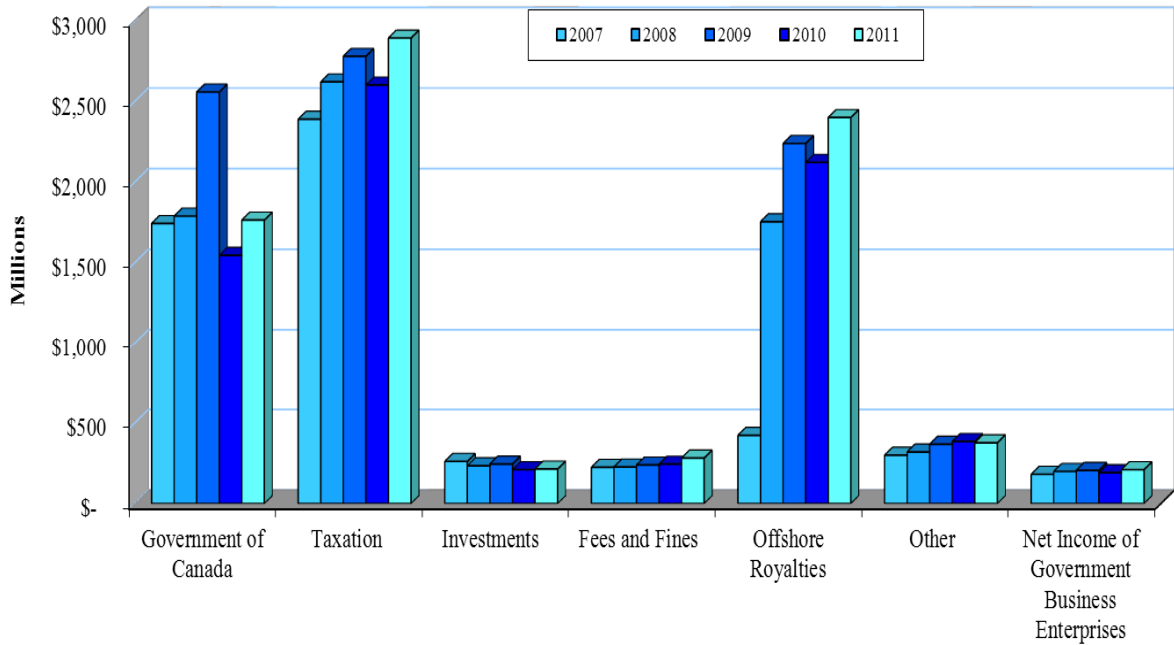


**HIGHLIGHTS - FINANCIAL OPERATIONS**

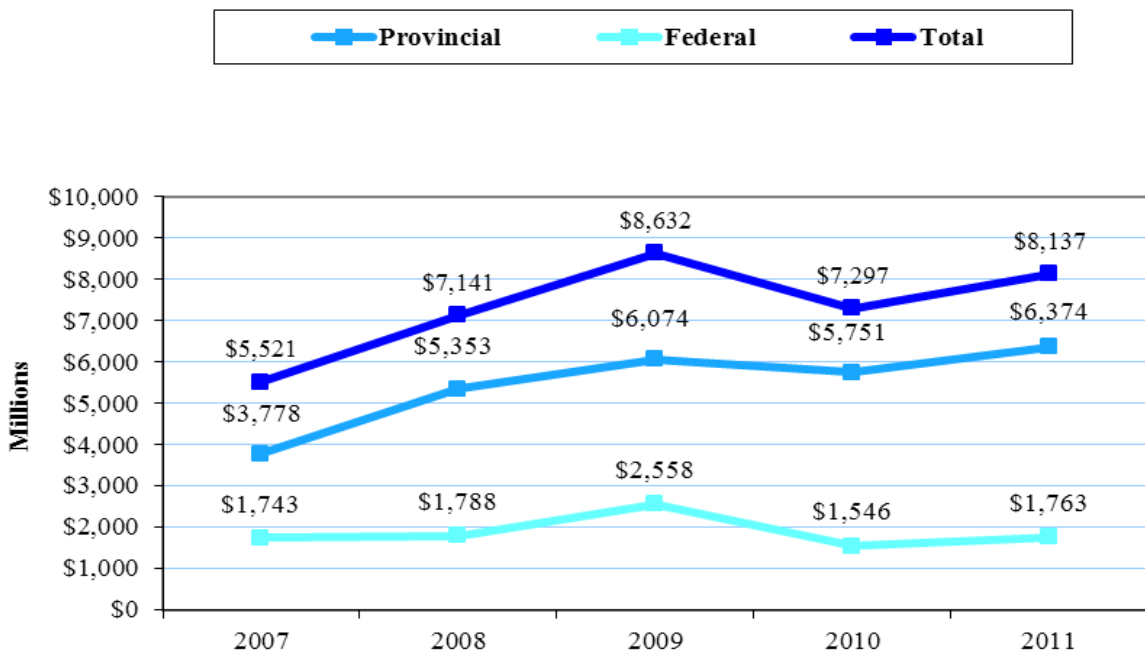
**Revenues**

Revenues for 2011 totaled \$8.1 billion. Provincial revenue sources accounted for 78.3% of this total, which decreased 0.5% compared to 2010. The remaining 21.7% is derived from Federal Government sources. Details on the sources of revenues, including five-year historical comparisons, are provided in the following charts and graphs.

**a) Revenues by Source - 5 Year Comparison**



**b) Total Revenues - 5 Year Comparison**



From an analysis of the previous charts and the information presented in the consolidated summary financial statements, the following observations can be made:

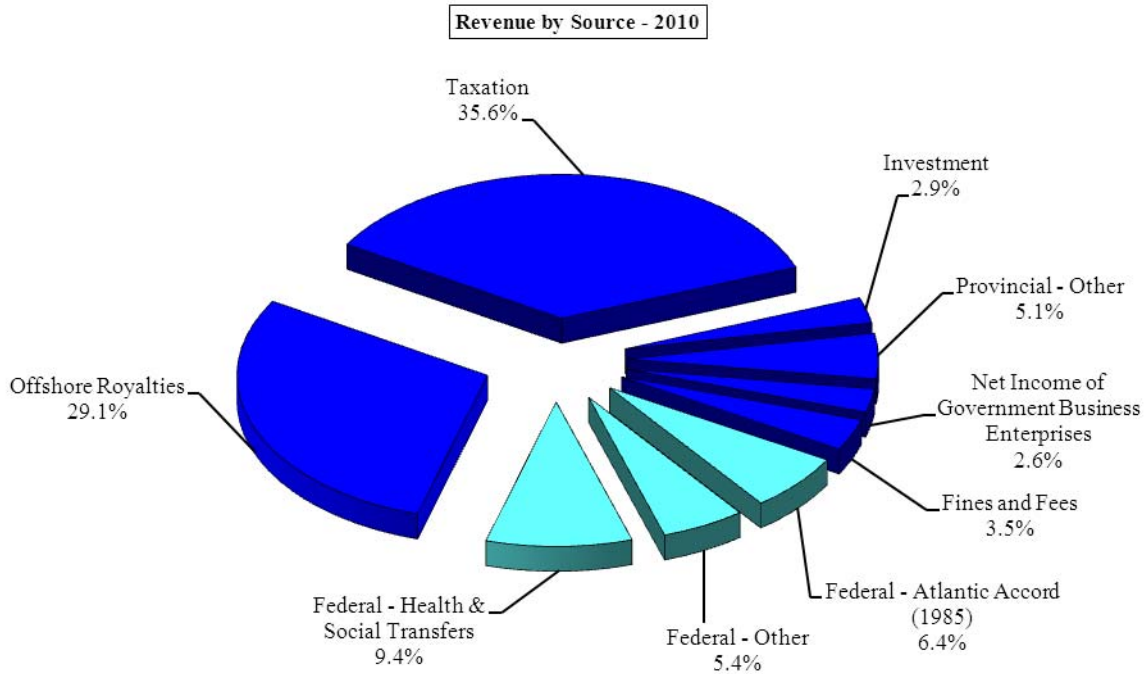
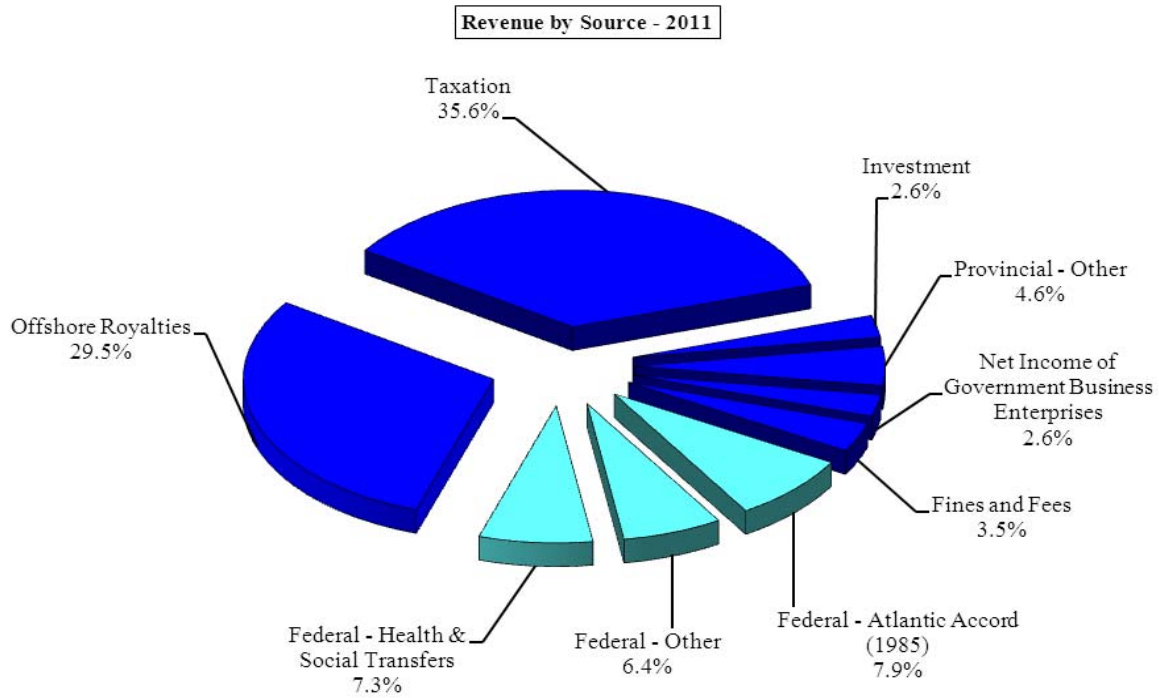
- Total revenues rebounded from 2010 and continued with the upward trend. Since 2007, annual revenues have increased by approximately \$2.6 billion.
- Total provincial revenues increased in 2011 by \$622.4 million after a decrease in 2010 of \$323.0 million.
- Federal revenue sources have increased in 2011 by \$218.0 million after a decline of \$1,012.2 million in 2010.

### **c) Revenues by Source**

The most significant changes in revenues by source between 2010 and 2011 arise from taxation, offshore royalties and the Atlantic Accord (1985).

- Revenues from the Atlantic Accord (1985) totaled \$641.9 million in 2011, up from \$465.3 million in 2010.
- Taxation revenues were \$291.4 million higher in 2011 in comparison to 2010 due to a \$143.2 million increase in mining and mineral rights tax, a \$95.9 million increase in sales tax, a \$69.4 million increase in personal income. The increase in mining and mineral rights tax is primarily due to better market conditions. The increase in personal income tax and sales tax is attributable to higher consumer expenditure growth combined with prior year income tax cuts. In addition, there is an increase of \$45.2 million in gasoline and other tax revenues. These increases are offset somewhat by a decrease of \$62.3 million in corporate income tax resulting partially from a revision in the Federal payment schedule resulting in higher payment in the prior year.
- Offshore royalties were \$278.1 million higher in 2011 than in 2010. This increase is a result of higher oil prices and increased production, triggering higher royalty rates. However, the volatility of oil prices creates uncertainty regarding the sustainability of this non-renewable revenue source.

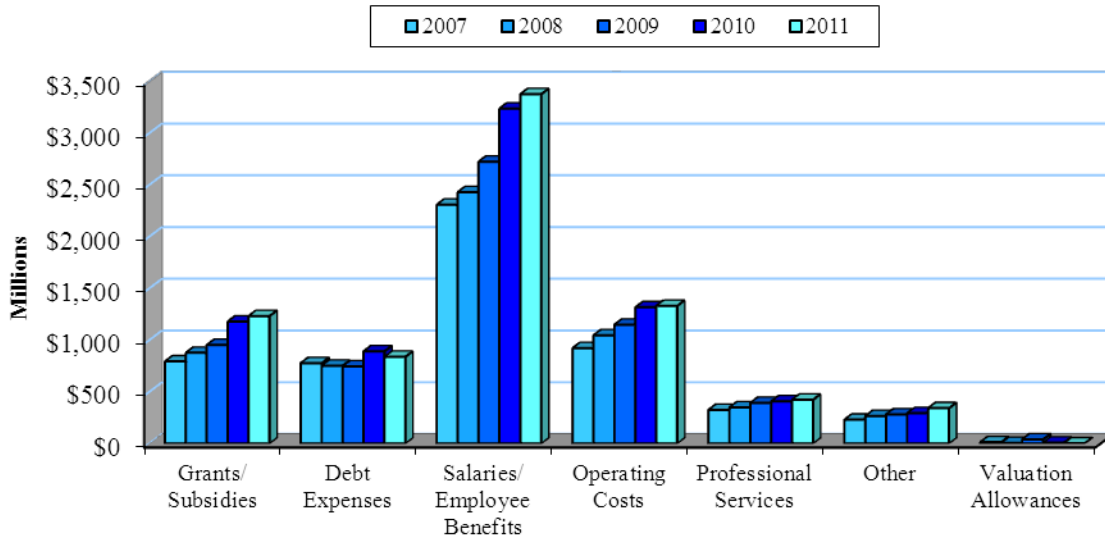
The following graphs display the revenues by source as a percentage of total revenues for 2011 and 2010.



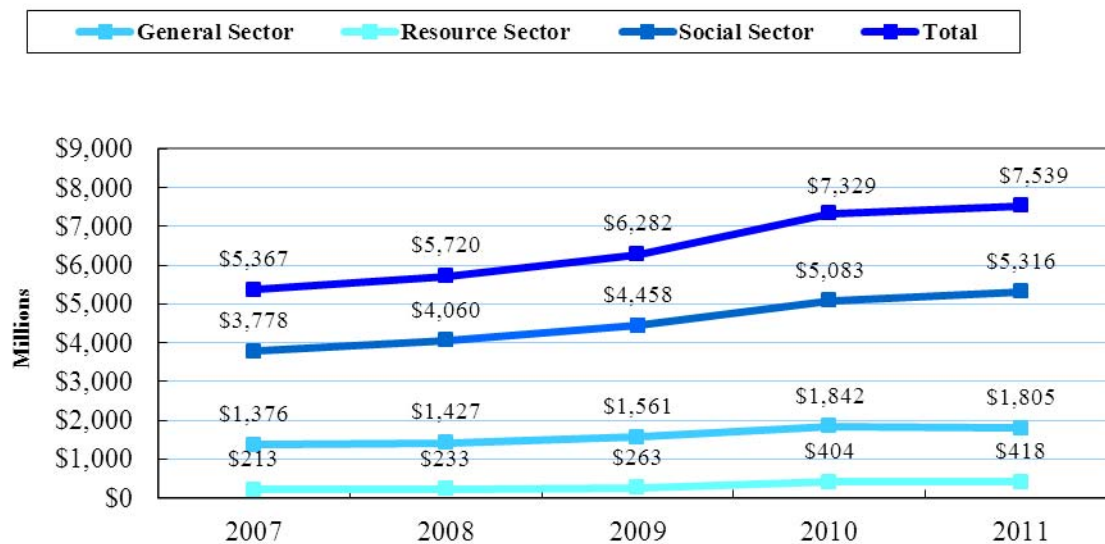
## Expenses

The total expenses incurred by the Province for 2011 amounted to \$7.5 billion. The following charts and discussion analyze the nature of these expenses by category and sector. In the discussion of expenses by category, it should be noted that the 'Other' category represents minor capital property acquisitions, as well as amortization and loss on sale relating to tangible capital assets.

### a) Expenses by Major Category - 5 Year Comparison



### b) Expenses by Sector - 5 Year Comparison





From an analysis of the previous charts and the information presented in the consolidated summary financial statements, the following observations can be made:

- In the past five years, total expenses of the Province have grown by \$2.2 billion. The largest growth occurred between 2009 and 2010 at an amount of \$1.0 billion.
- Salaries and employee benefits remain the Province's most significant expense, rising steadily over the past five years from \$2.3 billion in 2007 to \$3.4 billion in 2011.
- The two major components of total expenses are salaries and employee benefits and operating expenses which represent 62.4% of the total for 2011; this is a slight increase compared to 62.1% in 2010.
- Expenses for the social sector were the most significant portion of total expenses by sector in the past five years. This sector's expenses in 2011 were \$5,316.2 million, an increase of \$233.0 million from 2010, accounting for 70.5% of the total expenses for the year.

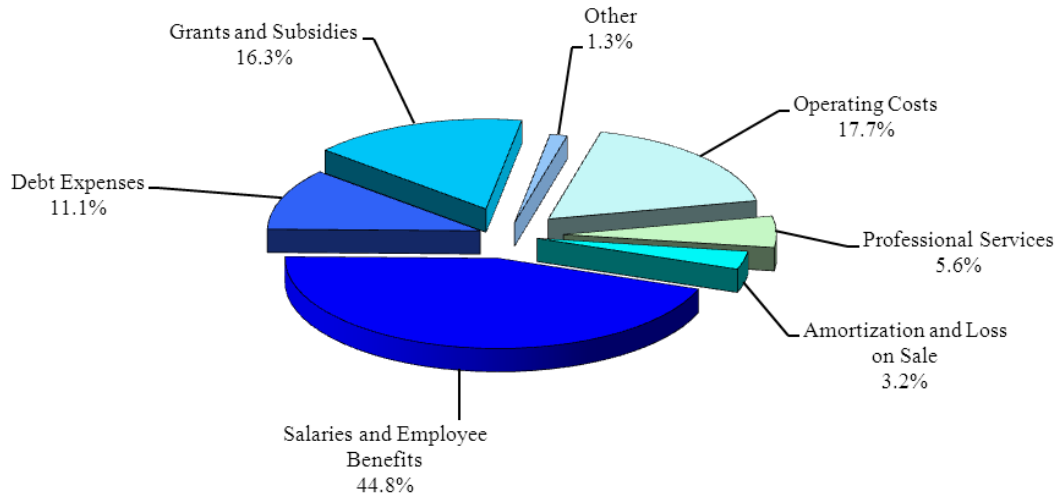
### ***c) Expenses by Category***

The most significant changes in expenses by category between 2010 and 2011 relate to salaries and employee benefits, grants and subsidies, amortization and loss on sale of tangible capital assets, operating costs, and debt expenses.

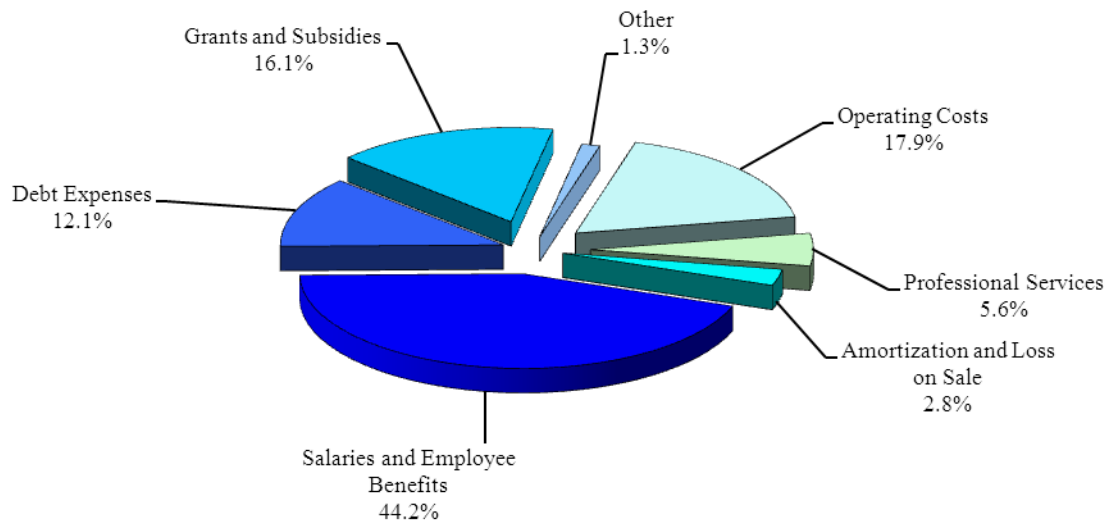
- Salaries and employee benefits increased by \$138.8 million between 2010 and 2011. These increases are attributed mainly to negotiated wage increases, implementation of new initiatives and the enhancement of existing programs resulting in additional hires. These increases were offset in part due to the gains experienced on the value of the provincial pension plan assets in the marketplace during 2010, resulting in decreased expense in 2011.
- Debt expenses decreased from 2010 to 2011 by \$53.4 million due to lower borrowing levels and a decrease in interest costs associated with the unfunded pension liability.
- The increase in grants and subsidies from 2010 to 2011 was \$52.9 million, primarily due to higher expenditures in various employment development, programming and support programs, affordable housing programs and new and existing health care programs, particularly the third party agencies providing community and family support.
- Amortization and loss on sale of tangible capital assets increased by \$40.9 between 2010 and 2011. This increase is a result of the investments in infrastructure.
- \$16.1 million increase in professional services primarily as a result of the new agreement reached with physicians.
- Operating costs were \$13.7 million higher in 2011 than in 2010, primarily attributed to increased repairs and maintenance for buildings and various road construction and maintenance programs. There was also increased construction projects associated with hurricane Igor.
- Other miscellaneous expenses increased by \$0.9 million.

The following graphs display the expenses by category as a percentage of total expenses for 2011 and 2010.

**Expenses by Major Category - 2011**



**Expenses by Major Category - 2010**



## **KEY INDICATORS**

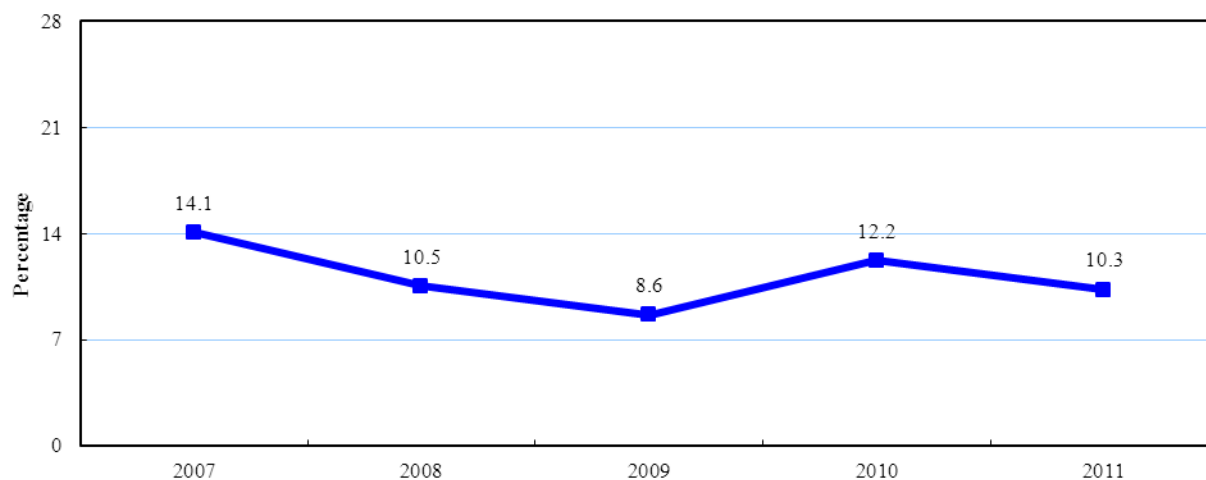
- Key indicators included in this document provide a more complete picture of the Province's financial position at 31 March 2011.
- The common key indicators included herein were primarily identified in a research report issued by the Canadian Institute of Chartered Accountants entitled *Indicators of Government Financial Condition*. These indicators, which are used in assessing a government's financial health in the context of the overall economic and financial environment, can be summarized under the headings of *flexibility*, *sustainability* and *vulnerability*.
- While there are no established public sector benchmarks for these indicators, one can assess the Province's financial condition through a comparison of previous years' indicators.
- Gross Domestic Product (GDP) and population figures were obtained from Newfoundland and Labrador Statistics Agency's website. Figures used were the latest non-forecasted information available as of 31 March 2011. The figures used in the 2011 and 2010 analysis were the most recently available for each respective year.

### **Flexibility**

Flexibility refers to the degree to which a government can respond to rising commitments by either expanding its revenues or increasing its debt. Indicators of flexibility include:

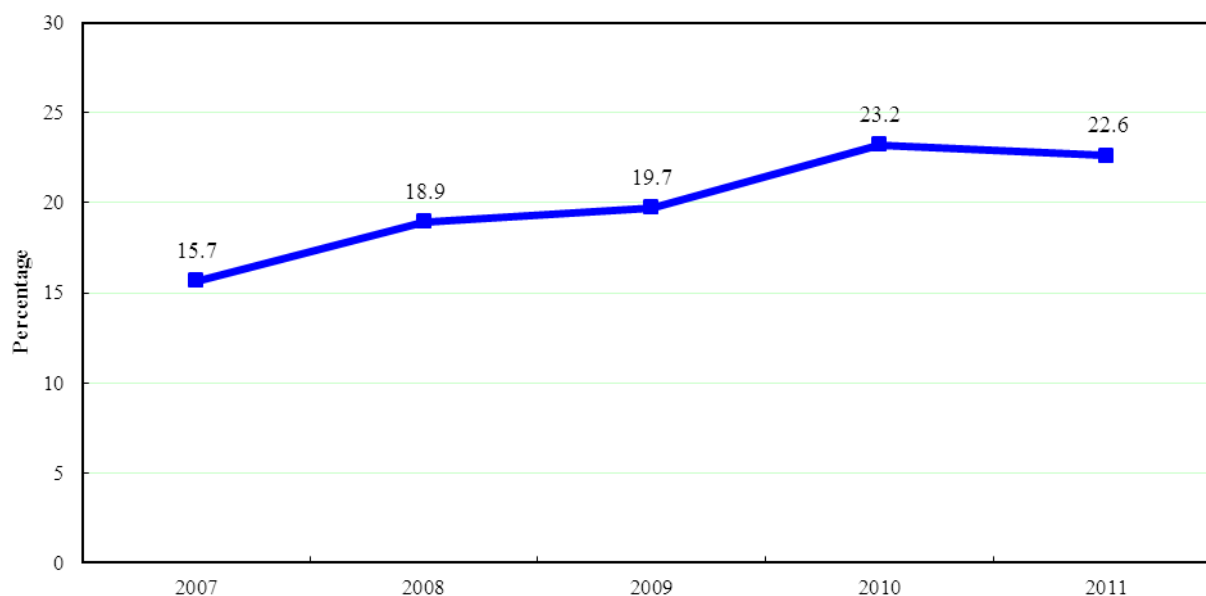
#### **a) *Province's Interest Cost as a Percentage of Revenues***

- This ratio measures the extent to which past borrowings may impact the Province's ability to provide for the economic and social needs of its citizens.
- The following graph indicates that the Province's interest costs as a percentage of revenues have decreased in 2011 to 10.3%. The decrease in the current year is a result of an increase in revenue, primarily the Atlantic Accord (1985) as well as mining and mineral rights tax, combined with a decrease in debt expenses from 2010. Over the past five years, the Province's interest costs as a percentage of revenues has decreased from 14.1% in 2007. This reduction is mainly attributable to the Province's increasing revenue base since 2007, as well as its decreasing interest costs.
- The average of this ratio over the past five years is 11.1%. Although declining, interest costs continue to remain a significant expense incurred by the Province.



### b) Provincial Revenues as a Percentage of GDP

- The purpose of this indicator is to show the extent to which a government is taking income out of the economy in its jurisdiction, through both taxation and user charges.
- The following graph indicates that provincial revenues as a percentage of GDP decreased slightly in the current year despite increases in the last four years.
- The 2011 ratio is 22.6%, a decrease from 23.2% in 2010. This ratio remains above the five-year average of 20.0%, which can be attributed to the economic downturn resulting in a decline in GDP, the first provincial decline since 1996.

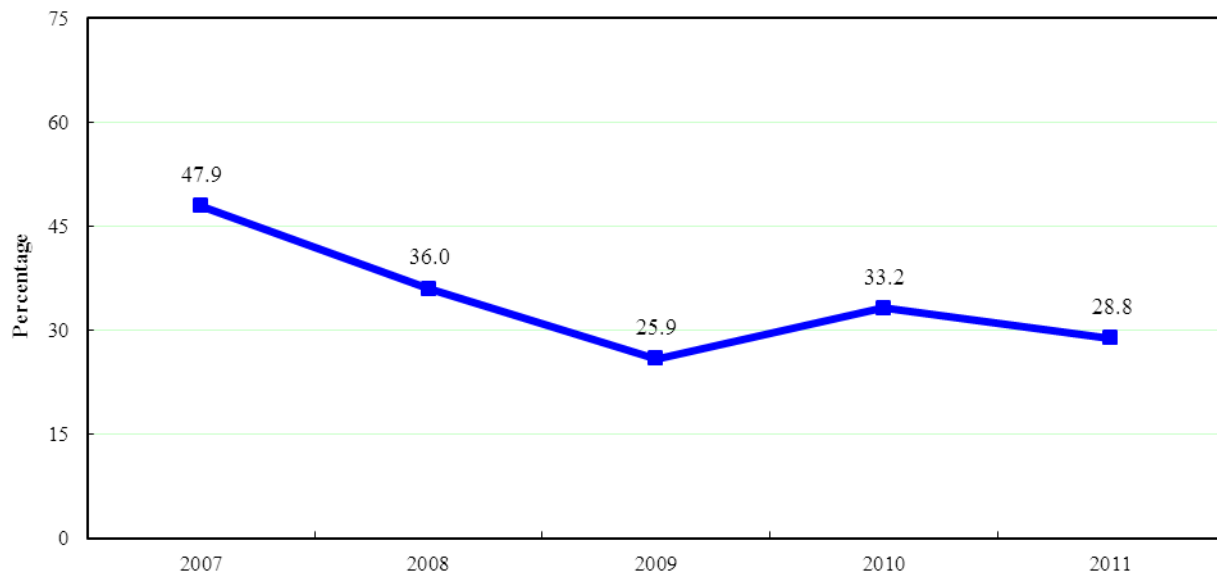


## Sustainability

Sustainability refers to the degree to which a government can meet its existing program commitments and creditor requirements without increasing the debt burden on the economy. Indicators of sustainability include:

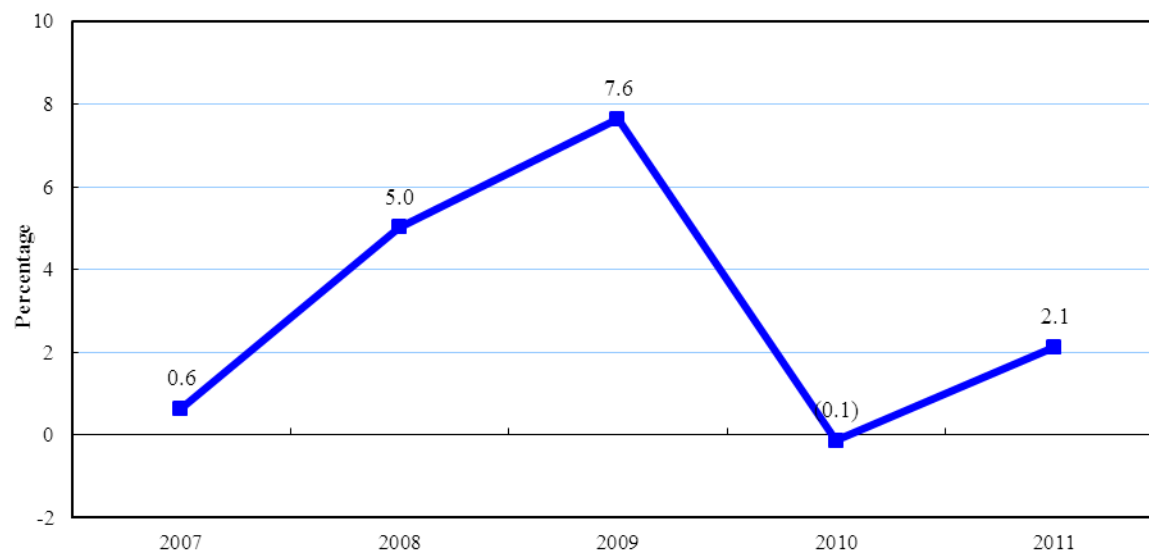
### a) *Net Debt as a Percentage of GDP*

- This ratio measures the level of debt that the Province carries as a percentage of its GDP.
- As presented in the following graph, there has been a decrease in net debt as a percentage of GDP in the current year, which is consistent with the steady decline from 2007 to 2009. On a five year basis, the relationship implies that the rate of decline in net debt has been greater than the rate of economic growth. As this ratio decreases, it indicates that Government has increased ability to manoeuver when making fiscal choices.
- The average of this ratio over the past five years is 34.4%. Since 2007, it has experienced a significant decrease of approximately 19.1%.



### b) *Annual Surplus (Deficit) as a Percentage of GDP*

- This ratio measures the difference between revenues and expenses expressed as a percentage of GDP.
- As indicated in the following graph, the annual surplus (deficit) as a percentage of GDP rebounded to a surplus as a percentage of GDP of 2.1% in 2011, consistent with significant increases from 2007 to 2009 to a surplus of 7.6%. The average of this ratio over the past five years is 3.0%. The current increase suggests that the Province's ability to meet its financial obligations has increased.

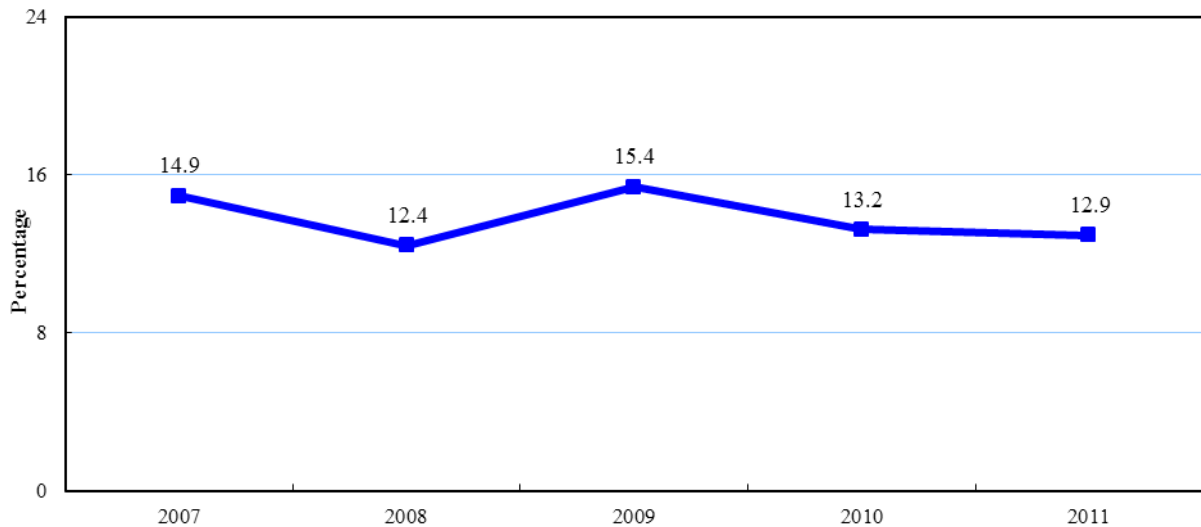


## Vulnerability

Vulnerability refers to the degree to which a government is dependent on, and therefore vulnerable to, sources of funding outside of its control or influence. Indicators of vulnerability include:

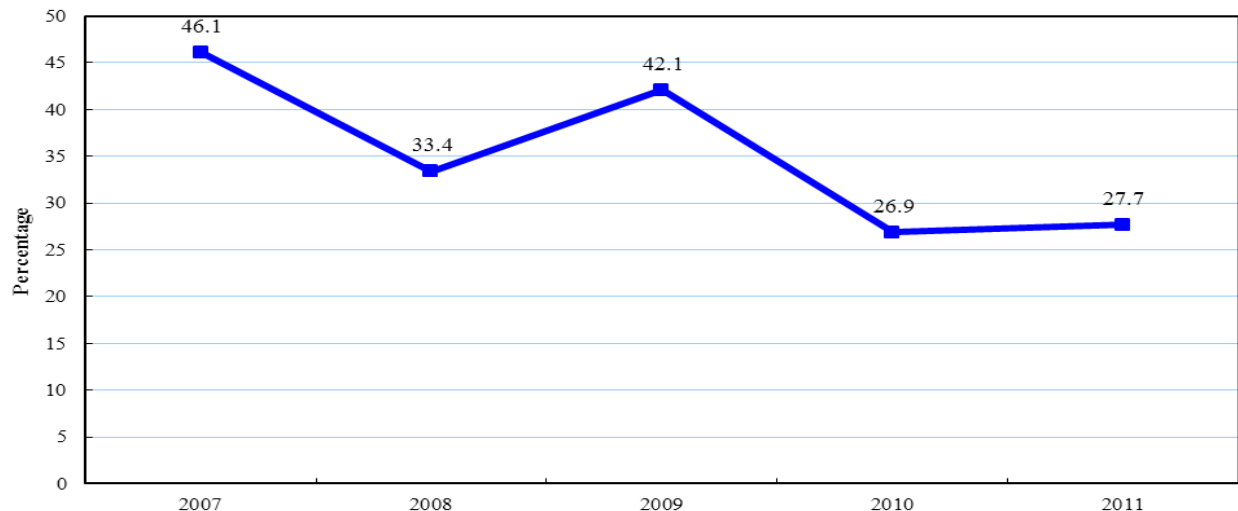
### a) *Foreign Currency Debt as a Percentage of Net Borrowings*

- This ratio measures the Province's foreign currency debt relative to its net borrowings. It reflects the degree of vulnerability to which the Province is subject in relation to foreign currency swings.
- As indicated in the following graph, foreign currency debt as a percentage of net borrowings has decreased to 12.9% in 2011, to a percentage comparable to 2008. The decrease in the current and prior years occurred due to declines in both foreign currency debt and net borrowings with a greater rate of decline in foreign currency debt than in net borrowings. This decrease illustrates that the Province is less vulnerable to changes in foreign currency exchange rates than in the previous years.
- The average of this ratio over the past five years is 13.8%. While foreign currency debt has historically represented a significant portion of net borrowings, this ratio has continued its decline to slightly below the average to 12.9%.



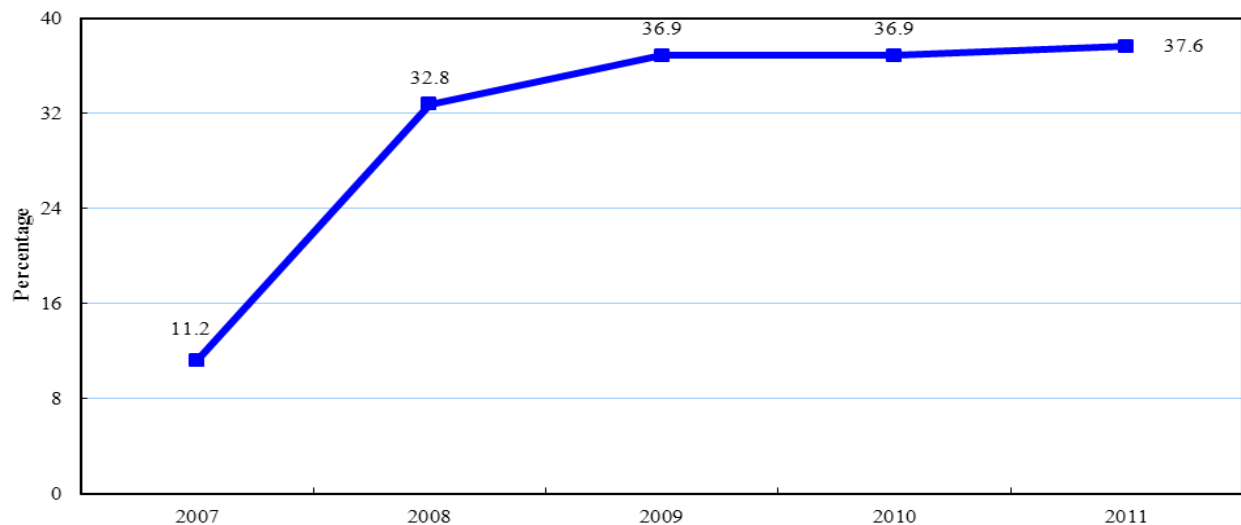
### b) Federal Transfers as a Percentage of Provincial Revenues

- This ratio measures the extent to which the Province increases its own revenues from within the Province as compared to the extent it receives funds from the Federal Government.
- As indicated in the following graph, federal transfers as a percentage of provincial revenues is comparable with 2010 with a slight increase of 0.8%. The indicator has been declining since 2006 with the exception of 2009. The increase in 2009 was primarily due to recognition of the remaining unearned balance of the Atlantic Accord 2005. While this trend indicates that the Province is becoming more self-reliant, the fiscal policy decisions of the Federal Government continue to have an impact on the Province's financial position.
- The 2011 ratio of federal transfers as a percentage of revenue generated from provincial sources has increased slightly to 27.7% which is less than the five-year average of 35.2%. This indicates the Province's historically heavy dependence on funding from the Federal Government is gradually being reduced.



### c) *Offshore Royalties as a Percentage of Provincial Revenues*

- This ratio measures the Province's offshore royalty revenues in relation to total provincial revenues. It reveals the degree to which the Province relies on revenues from offshore royalties as a source of funding.
- As indicated in the following graph, offshore royalties as a percentage of provincial revenues have increased significantly since 2007. This indicates that the Province continues to rely more on offshore royalties for revenues.
- For the past five years, the average ratio of offshore royalties to provincial revenues is 31.1%. In 2011, the ratio is 37.6%, significantly greater than the five year average. Overall the Province is increasingly more dependent on revenues from offshore royalties; a revenue source which is subject to the volatility of market factors such as the price of oil.



## **FINANCIAL PERFORMANCE**

As presented in this report, the Province returned to a surplus in 2010-11. This will be the fifth surplus in six years. The cumulative value of these surpluses is almost \$4.7 billion. The recent surpluses along with investments in the Province's economy and improved oil prices have better positioned the Province to continue to weather the global recession and minimize its impacts on the Province's financial situation. The Province continues to face challenges to reduce the level of debt and must continue to manage our spending and financial resources at a sustainable level.



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# **Province of Newfoundland and Labrador**

## **Consolidated Summary Financial Statements**

**For The Year Ended  
31 March 2011**

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13 December 2011

## STATEMENT OF RESPONSIBILITY

Responsibility for the integrity, objectivity and fair presentation of the consolidated summary financial statements of the Province of Newfoundland and Labrador rests with the Government. As required under Section 59 of the *Financial Administration Act*, these consolidated summary financial statements are prepared by the Comptroller General of Finance in accordance with the applicable legislation and in accordance with the accounting policies as disclosed in Note 1 to these consolidated summary financial statements. These consolidated summary financial statements are prepared based upon information provided by the various Government departments and the noted Crown corporations, boards and authorities pursuant to Section 19 of the *Transparency and Accountability Act* and Section 20 of the *Financial Administration Act*.

The Government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained.

The consolidated summary financial statements in this volume include a Consolidated Statement of Financial Position, a Consolidated Statement of Change in Net Debt, a Consolidated Statement of Operations, a Consolidated Statement of Change in Accumulated Deficit, a Consolidated Statement of Cash Flows and notes. Other schedules and notes that are included also form an integral part of these statements.

Pursuant to Section 11 of the *Auditor General Act*, the Auditor General of Newfoundland and Labrador provides an independent opinion on the consolidated summary financial statements.

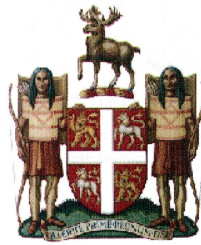


THOMAS W. MARSHALL, Q.C.  
Minister of Finance and President  
of Treasury Board



RONALD A. WILLIAMS, CA  
Comptroller General of Finance

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OFFICE OF THE AUDITOR GENERAL  
St. John's, Newfoundland and Labrador

## AUDITOR'S REPORT

To the House of Assembly  
Province of Newfoundland and Labrador

### **Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of the Province of Newfoundland and Labrador, which comprise the consolidated statement of financial position as at 31 March 2011, and the consolidated statements of change in net debt, operations, change in accumulated deficit, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Government's Responsibility for the Consolidated Financial Statements*

Government is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as Government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Government, as well as evaluating the overall presentation of the consolidated financial statements.

## AUDITOR'S REPORT (cont.)

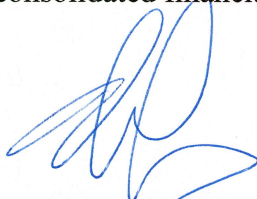
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province as at 31 March 2011, and the consolidated results of its operations, the change in its net debt, the change in its accumulated deficit, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### *Report on Other Legal and Regulatory Requirements*

As required under Section 11 of the *Auditor General Act*, I also report that in my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province as at 31 March 2011, and the consolidated results of its operations, the change in its net debt, the change in its accumulated deficit, and its cash flows for the year then ended in accordance with the accounting policies as disclosed in Note 1 to these consolidated financial statements applied on a basis consistent with that of the preceding year.



**WAYNE R. LOVEYS, CMA**  
**Auditor General (A)**

13 December 2011  
St. John's, Newfoundland and Labrador

## SUMMARY FINANCIAL STATEMENTS

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Consolidated Statement of Financial Position  
As at 31 March 2011  
with comparative figures for 2010**

|                             | Actuals<br>2011<br>(\$000) | Actuals<br>2010<br>(\$000) |
|-----------------------------|----------------------------|----------------------------|
| <b>FINANCIAL ASSETS</b>     |                            |                            |
|                             | 2,212,774                  | 1,921,837                  |
| Sch. 1                      | 1,057,909                  | 898,220                    |
|                             | 5,431                      | 4,926                      |
| Sch. 2                      | 354,309                    | 279,713                    |
| Sch. 3                      | 1,343,128                  | 1,244,315                  |
|                             | <u>4,973,551</u>           | <u>4,349,011</u>           |
| <b>LIABILITIES</b>          |                            |                            |
| Sch. 5                      | 2,457,612                  | 2,245,603                  |
|                             | 155,610                    | 161,495                    |
| Sch. 6                      | 5,695,925                  | 6,011,644                  |
|                             | 218,356                    | 205,556                    |
|                             | <u>5,914,281</u>           | <u>6,217,200</u>           |
|                             | 1,908,810                  | 1,767,625                  |
|                             | 2,666,539                  | 2,177,173                  |
|                             | <u>13,102,852</u>          | <u>12,569,096</u>          |
|                             | <u>8,129,301</u>           | <u>8,220,085</u>           |
| <b>NET DEBT</b>             |                            |                            |
| <b>NON-FINANCIAL ASSETS</b> |                            |                            |
| Sch. 9                      | 3,113,435                  | 2,614,407                  |
|                             | 45,755                     | 44,189                     |
|                             | 49,284                     | 46,558                     |
|                             | <u>3,208,474</u>           | <u>2,705,154</u>           |
|                             | <u>4,920,827</u>           | <u>5,514,931</u>           |
| <b>ACCUMULATED DEFICIT</b>  |                            |                            |
|                             |                            |                            |
|                             |                            |                            |
|                             |                            |                            |
|                             |                            |                            |
| Sch. 7                      |                            |                            |
| Sch. 8                      |                            |                            |

The accompanying notes and supporting schedules form an integral part of the financial statements.



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**PROVINCE OF NEWFOUNDLAND AND LABRADOR**


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**Consolidated Statement of Change in Net Debt  
For the year ended 31 March 2011  
with comparative figures for 2010**


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|  | Actuals<br>2011  | Original<br>Estimates<br>2011<br>(Note 17) | Actuals<br>2010  |
|--|------------------|--|------------------|
|  | (\$000)          | (\$000)                                    | (\$000)          |
| <b>NET DEBT - beginning of period</b> .....                                | 8,220,085        | 8,457,016                                  | 7,968,453        |
| Add (Deduct):  |                  |  |                  |
| Adjustments:   |                  |  |                  |
| Government organization changes - note 13 .....                            | 3,773            | -  | (19,550)         |
| <b>ADJUSTED NET DEBT - beginning of period</b> .....                       | 8,223,858        | 8,457,016                                  | 7,948,903        |
| <b>Surplus (Deficit) for the period</b> .....                              | 597,877          | (194,303)                                  | (32,575)         |
| <b>Changes in tangible capital assets</b>                                  |                  |  |                  |
| Acquisition of tangible capital assets .....                               | 746,508          | 732,307                                    | 422,429          |
| Net book value of tangible capital asset disposals/adjustments .....       | (6,991)          | -  | (5,554)          |
| Amortization of tangible capital assets .....                              | (240,489)        | (227,207)                                  | (199,571)        |
| <i>Increase (Decrease) in net book value of tangible capital assets</i> .. | 499,028          | 505,100                                    | 217,304          |
| <b>Changes in other non-financial assets</b>                               |                  |  |                  |
| Acquisition of prepaid and deferred charges (net of usage) .....           | 1,566            | -  | 8,632            |
| Acquisition of inventories of supplies (net of consumption) .....          | 2,726            | -  | 12,671           |
| <i>Increase (Decrease) in other non-financial assets</i> .....             | 4,292            | -  | 21,303           |
| <i>Increase (Decrease) in net debt</i> .....                               | (94,557)         | 699,403                                    | 271,182          |
| <b>NET DEBT - end of period</b> .....                                      | <u>8,129,301</u> | <u>9,156,419</u>                           | <u>8,220,085</u> |

The accompanying notes and supporting schedules form an integral part of the financial statements.

## SUMMARY FINANCIAL STATEMENTS

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**PROVINCE OF NEWFOUNDLAND AND LABRADOR**


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**Consolidated Statement of Operations**  
**For the year ended 31 March 2011**  
**with comparative figures for 2010**


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|                | Actuals<br>2011  | Original<br>Estimates<br>2011<br>(Note 17) | Actuals<br>2010  |
|----------------|--|--|------------------|
|                | (\$000)  | (\$000)                                    | (\$000)          |
| <b>REVENUE</b> |  |  |                  |
| Sch. 10        | Provincial   |  |                  |
| Sch. 10        | Taxation .....   | 2,892,370                                  | 2,404,662        |
| Sch. 10        | Investment .....                                       | 213,496                                    | 193,118          |
| Sch. 10        | Fees and fines .....                                   | 282,063                                    | 222,474          |
| Sch. 10        | Offshore royalties .....                               | 2,399,444                                  | 2,162,200        |
| Sch. 10        | Other .....  | 376,808                                    | 355,390          |
| Sch. 10        | Government of Canada .....                             | 1,763,485                                  | 1,845,375        |
|                |  | <u>7,927,666</u>                           | <u>7,183,219</u> |
| Sch. 4         | Net income of government business enterprises .....    | 209,513                                    | 206,925          |
|                | <b>Total Revenue</b> .....                             | <u>8,137,179</u>                           | <u>7,390,144</u> |
| <b>EXPENSE</b> |  |  |                  |
| Sch. 11        | General Government Sector and Legislative Branch ..... | 1,805,102                                  | 1,754,936        |
| Sch. 11        | Resource Sector .....                                  | 418,036                                    | 369,204          |
| Sch. 11        | Social Sector .....                                    | 5,316,164                                  | 5,460,307        |
| Sch. 12        | <b>Total Expense</b> .....                             | <u>7,539,302</u>                           | <u>7,584,447</u> |
|                | <b>ANNUAL SURPLUS (DEFICIT)</b> .....                  | <u>597,877</u>                             | <u>(194,303)</u> |
|                |  | <u>(32,575)</u>                            |                  |

The accompanying notes and supporting schedules form an integral part of the financial statements.

## SUMMARY FINANCIAL STATEMENTS

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**PROVINCE OF NEWFOUNDLAND AND LABRADOR**
**Consolidated Statement of Change in Accumulated Deficit  
For the year ended 31 March 2011  
with comparative figures for 2010**


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|   | Actuals<br>2011  | Original<br>Estimates<br>2011<br>(Note 17) | Actuals<br>2010  |
|---|------------------|--|------------------|
|   | (\$000)          | (\$000)                                    | (\$000)          |
| <b>ACCUMULATED DEFICIT - beginning of period</b> .....        | 5,514,931        |  | 5,501,906        |
| Add (Deduct):   |                  |  |                  |
| Adjustments:  |                  |  |                  |
| Government organization changes - note 13 .....               | 3,773            |  | (19,550)         |
| <b>ADJUSTED ACCUMULATED DEFICIT - beginning of period</b> ... | 5,518,704        |  | 5,482,356        |
| <b>Surplus (Deficit) for the period</b> .....                 | 597,877          | (194,303)                                  | (32,575)         |
| <b>ACCUMULATED DEFICIT - end of period</b> .....              | <u>4,920,827</u> |  | <u>5,514,931</u> |

The accompanying notes and supporting schedules form an integral part of the financial statements.

## SUMMARY FINANCIAL STATEMENTS

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Consolidated Statement of Cash Flows For the year ended 31 March 2011 with comparative figures for 2010

|   | Actuals<br>2011<br>(\$000) | Actuals<br>2010<br>(\$000) |
|---|----------------------------|----------------------------|
| <b>Funds provided from (applied to):</b>                                    |                            |                            |
| <b>OPERATIONS</b>   |                            |                            |
| Annual surplus (deficit) . . . . .  | 597,877                    | (32,575)                   |
| Add (Deduct) non-cash items:  |                            |                            |
| Amortization of foreign exchange (gains)/losses . . . . .                   | (17,774)                   | (997)                      |
| Amortization of tangible capital assets . . . . .                           | 240,489                    | 199,571                    |
| Retirement costs . . . . .  | 625,733                    | 690,045                    |
| Valuation allowances . . . . .  | 1,202                      | 7,790                      |
| Unremitted net income of government business enterprises . . . . .          | (93,513)                   | (106,938)                  |
| Sinking fund earnings . . . . .   | (46,720)                   | (48,100)                   |
| Deferred revenue . . . . .  | (5,885)                    | (6,773)                    |
| Other . . . . .   | 34,955                     | (212,528)                  |
| <i>Net cash provided from (applied to) operating transactions</i> . . . . . | <u>1,336,364</u>           | <u>489,495</u>             |
| <b>CAPITAL</b>  |                            |                            |
| Acquisitions . . . . .  | (746,508)                  | (422,429)                  |
| Disposals . . . . .   | 2,865                      | 1,738                      |
| <i>Net cash provided from (applied to) capital transactions</i> . . . . .   | <u>(743,643)</u>           | <u>(420,691)</u>           |
| <b>FINANCING</b>  |                            |                            |
| Debt assumed . . . . .  | 103,246                    | -                          |
| Debt issued . . . . .   | 4,103                      | 4,058                      |
| Debt retirement . . . . .   | (290,003)                  | (346,520)                  |
| Special purpose funds/contractors' holdback funds . . . . .                 | (7,400)                    | 10,415                     |
| Treasury bills redeemed . . . . .   | (2,010,974)                | (1,974,265)                |
| Treasury bills purchased . . . . .  | 2,009,951                  | 1,974,852                  |
| Sinking fund proceeds . . . . .   | -                          | 55,875                     |
| Sinking fund contributions . . . . .  | (51,489)                   | (53,939)                   |
| Retirement of pension liabilities . . . . .                                 | (4,745)                    | (104,854)                  |
| <i>Net cash provided from (applied to) financing transactions</i> . . . . . | <u>(247,311)</u>           | <u>(434,378)</u>           |
| <b>INVESTING</b>  |                            |                            |
| Loan repayments . . . . .   | 58,576                     | 67,494                     |
| Loan advances . . . . .   | (15,276)                   | (32,493)                   |
| Investments . . . . .   | (97,773)                   | (15,087)                   |
| <i>Net cash provided from (applied to) investing transactions</i> . . . . . | <u>(54,473)</u>            | <u>19,914</u>              |
| <i>Net cash provided (applied)</i> . . . . .                                | <u>290,937</u>             | <u>(345,660)</u>           |
| Cash and temporary investments - beginning of period . . . . .              | 1,921,837                  | 2,267,497                  |
| <b>CASH AND TEMPORARY INVESTMENTS - end of period</b> - note 2 . . . . .    | <u><u>2,212,774</u></u>    | <u><u>1,921,837</u></u>    |

The accompanying notes and supporting schedules form an integral part of the financial statements.

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**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

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**Notes to the Consolidated Financial Statements  
For the year ended 31 March 2011**

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**1. Summary of Significant Accounting Policies****(a) The Reporting Entity**

The Reporting Entity includes the accounts and financial activities of organizations, as approved by Treasury Board, which are controlled by Government. These organizations are accountable for the administration of their financial affairs and resources either to a Minister of the Government or directly to the Legislature.

A listing of organizations included in these financial statements is provided in Schedule 15 - Government Reporting Entity.

**(b) Method of Consolidation**

The accounts of government organizations, except those designated as government business enterprises, are consolidated after adjusting them to a basis consistent with the accounting policies described below. Inter-organizational transactions and balances are eliminated.

A government business enterprise is an organization, included in the reporting entity, that has the financial and operating authority to carry on a business and sell goods and services to individuals and non-government organizations as its principal activity and source of revenue.

Government business enterprises are recorded on the modified equity method. Under this method, the Government's equity in these enterprises is adjusted annually to reflect the net income/loss and other net equity changes of the enterprise without adjusting the enterprise's financial statements to conform with the accounting policies described below. Inter-organizational transactions and balances are not eliminated.

Adjustments are not made to the financial results of government organizations because of fiscal year-ends different than that used for the consolidated entity, unless it would have a significant impact on the consolidated operating results.

**(c) Basis of Accounting****(i) Method**

These financial statements are prepared on the accrual basis of accounting, revenues being recorded when earned and expenses being recorded when liabilities are incurred, with exceptions made in accordance with the applicable significant accounting policies.

**(ii) Revenues**

Revenues from the Government of Canada under the federal-provincial fiscal arrangements, health and social transfers and tax collection agreements are based on regular entitlements received for the current year and adjusted against future years' revenues when known.

Other revenues are recorded on an accrual basis.

**(iii) Expenses**

Expenses are recorded on an accrual basis.

Retirement related costs are determined as the cost of benefits and interest on the liabilities accrued, as well as amortization of experience gains and losses.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (iv) *Assets*
- Temporary investments are recorded at cost or market value, whichever is lower.
- Receivables are recorded for all amounts due for work performed and goods or services supplied. Valuation allowances are provided when collection is considered doubtful.
- Inventories held for resale are recorded at the lower of cost or net realizable value.
- Inventories of supplies are comprised of items which are held for consumption that will be used by the Province in the course of its operations.
- Loans and advances are recorded at cost. Valuation allowances are recorded to reflect assets at the lower of cost or net recoverable value. Loans made by the Province that are expected to be recovered from future appropriations are accounted for as expenses by providing valuation allowances. Interest revenue on loans receivable is recognized when earned and ceases when collection is not reasonably assured.
- Investments are recorded at cost and are written down when there is a loss in value that is other than a temporary decline.
- Equity in government business enterprises represents the net assets of government business enterprises recorded on the modified equity basis as described under note 1(b).
- Unrealized foreign exchange gains or losses are deferred and amortized on a straight line basis over the remaining term of the debt.
- Tangible capital assets held by the Province are recorded at cost or estimated cost less accumulated amortization.
- (v) *Liabilities*
- Payables, accrued and other liabilities are recorded for all amounts due for work performed, goods or services received or for charges incurred in accordance with the terms of a contract.
- Deferred revenue represents amounts received but not earned.
- Borrowings, except treasury bills, are recorded at face value and are reported net of sinking funds. Treasury bills are recorded at net proceeds. The Province records foreign-denominated debt in Canadian dollars translated at the exchange rate on the transaction date which is considered to be the issue date; except for the proceeds of hedged transactions which are recorded at the rate as established by the terms of that hedge. Foreign-denominated sinking fund assets are also recorded in Canadian dollars and transactions are translated at the exchange rate used in recording the related debt. At 31 March, foreign debt and sinking funds are adjusted to reflect the exchange rate in effect on that date.
- (vi) *Government Transfers*
- Government transfers are recognized by the Province as revenues or expenses in the period during which both the payment is authorized and any eligibility criteria are met.
- (vii) *Loan Guarantees*
- The Province has guaranteed the repayment of principal and interest on certain debentures and bank loans on behalf of Crown corporations, municipalities, private sector companies and certain individuals. A provision for losses on these guarantees is established when it is determined that a loss is likely.
- (d) **Generally Accepted Accounting Principles**
- The accounting policies followed in the preparation of these financial statements have been applied consistent with generally accepted accounting principles for senior governments as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**2. Cash and Temporary Investments**

Cash and temporary investments consist of:

|  | 31 March<br>2011      | 31 March<br>2010      |
|--|-----------------------|-----------------------|
|  | (\$mil)               | (\$mil)               |
| Cash and temporary investments - Consolidated Revenue Fund (CRF) . . . . . |                       |                       |
| Cash balance (overdraft) . . . . .   | 1,183.2               | 1,385.9               |
| Temporary investments . . . . .  | 550.6                 | 19.0                  |
| Total cash and temporary investments - CRF . . . . .                       | <u>1,733.8</u>        | <u>1,404.9</u>        |
| Cash and temporary investments - Other Entities:                           |                       |                       |
| Cash balance (overdraft) . . . . .   | 372.4                 | 436.9                 |
| Temporary investments . . . . .  | 106.6                 | 80.0                  |
| Total cash and temporary investments - Other Entities . . . . .            | <u>479.0</u>          | <u>516.9</u>          |
| Total: Cash and Temporary Investments (CRF and Other Entities) . . . . .   | <u><u>2,212.8</u></u> | <u><u>1,921.8</u></u> |

Temporary investments consist of investments with financial institutions. As at 31 March 2011, these investments are on call or have maturity dates ranging from 11 April 2011 to 30 June 2020 at interest rates which vary from 0.20% to 7.00%.

**3. Inventories**

Inventories consist of:

|  | 31 March<br>2011   | 31 March<br>2010   |
|--|--------------------|--------------------|
|  | (\$mil)            | (\$mil)            |
| <b>Inventories Held for Resale</b>   |                    |                    |
| University and college textbooks, stockroom and food supplies . . . . .              | 3.4                | 3.4                |
| Newfoundland and Labrador Housing Corporation land assemblies . . . . .              | 1.3                | 1.3                |
| Other entities . . . . .   | 0.7                | 0.2                |
| Total: Inventories Held for Resale . . . . .   | <u>5.4</u>         | <u>4.9</u>         |
| <b>Inventories of Supplies</b>   |                    |                    |
| Textbooks and stockroom supplies held within the Consolidated Revenue Fund . . . . . | 24.3               | 21.9               |
| Medical and drug supplies held by health sector entities . . . . .                   | 23.5               | 23.4               |
| Other miscellaneous supplies . . . . .   | 1.5                | 1.3                |
| Total: Inventories of Supplies . . . . .   | <u><u>49.3</u></u> | <u><u>46.6</u></u> |

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**4. Deferred Revenue**

Deferred revenue consists of:

|   | 31 March<br>2011 | 31 March<br>2010 | Change       |
|---|------------------|------------------|--------------|
|   | (\$mil)          | (\$mil)          | (\$mil)      |
| Entities in the education sector relating to the provision of various educational services including contract training and special projects .....                           | 84.1             | 81.2             | 2.9          |
| Federal initiatives in support of public transit, clean air and climate change, affordable housing, community development, employment development and police officers ..... | 15.5             | 29.2             | (13.7)       |
| Federal government funding for various health care initiatives .....  | 10.9             | 15.2             | (4.3)        |
| Entities in the health sector relating to the provision of various health care services including research and other contracts .....  | 10.4             | 11.9             | (1.5)        |
| Gas tax initiatives .....   | 8.5              | -                | 8.5          |
| Other miscellaneous programs including recycling programs, social and economic development and cultural heritage .....  | 26.2             | 24.0             | 2.2          |
| Total: Deferred Revenue .....   | <u>155.6</u>     | <u>161.5</u>     | <u>(5.9)</u> |

The balance as of 31 March 2011 will be recognized as revenue in the periods in which the revenue recognition criteria have been met.

**5. Unamortized Unrealized Foreign Exchange Gains and Losses**

Foreign currency debt and sinking funds are translated to Canadian dollars at the exchange rate at 31 March 2011 or the exchange rate at maturity for these debt and sinking funds retired during the fiscal year. See Schedule 6 - Borrowings. Details of the effect of these translations at year end are outlined in the table below.

The net amortization expense is \$17.8 million which represents a credit adjustment (31 March 2010 - \$0.8 million-credit adjustment).

|  | 31 March<br>2011 | 31 March<br>2010 |
|--|------------------|------------------|
|  | (\$mil)          | (\$mil)          |
| Foreign exchange gain (loss):                                    |                  |                  |
| Debt .....   | 253.5            | 205.0            |
| Sinking funds .....  | (70.2)           | (52.3)           |
| Net .....  | <u>183.3</u>     | <u>152.7</u>     |
| Total accumulated amortization .....                             | <u>35.1</u>      | <u>52.9</u>      |
| Net unamortized unrealized foreign exchange gains (losses) ..... | <u>218.4</u>     | <u>205.6</u>     |



## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**6. Retirement Benefits - Group Health and Life Insurance**

All retired employees of the Government of Newfoundland and Labrador who are receiving a pension from the Public Service Pension Plan, Uniformed Services Pension Plan, Members of the House of Assembly Pension Plan or the Provincial Court Judges' Pension Plan are eligible to participate in the group insurance program sponsored by Government. All retired teachers who are receiving a pension from the Teachers' Pension Plan are eligible for coverage under the group insurance program sponsored by the Newfoundland and Labrador Teachers Association (NLTA) and cost shared by Government. All retired employees of the Newfoundland and Labrador Housing Corporation (NLHC) are eligible to participate in the group insurance plans sponsored by NLHC. All retired employees of Memorial University of Newfoundland (MUN) who are receiving a pension from the Memorial University Pension Plan or another retirement benefit to which MUN contributed are eligible to participate in the group insurance plans sponsored by MUN. These programs provide both group health and group life benefits to enrolled retirees.

Under the plans sponsored by the Province, NLTA and NLHC, the employer contributes 50% towards group health and group life premiums for both employees and retirees. Plans sponsored by the NLTA are subject to the maximum rates under the NLTA's program. For plans sponsored by MUN, the employer also contributes 50% of the total premium charged towards the benefits of both employees and retirees, with the exception of certain retirees whose health benefits are fully funded by MUN. As at 31 March 2011, the total of all the plans provided benefits to 20,402 retirees.

**Actuarial Valuations**

An actuarial extrapolation was prepared to 31 March 2011 by the Province's actuaries based on the latest actuarial valuation (valuation date of 31 March 2009) for the programs sponsored by the Province and the NLTA. The actuarial extrapolation was based on a number of assumptions about future events including an interest rate of 4.65%, Consumer Price Index (CPI) of 2.50%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality. The assumptions used reflect the Province's best estimates of expected long-term rates and short-term forecasts.

An actuarial extrapolation was prepared to 31 March 2011 by NLHC's actuaries based on the latest actuarial valuation (valuation date of 31 March 2009) for the programs sponsored by NLHC. The actuarial extrapolation was based on a number of assumptions about future events including an interest rate of 6.0%, CPI of 2.5%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality. The assumptions used reflect NLHC's best estimates of expected long-term rates and short-term forecasts.

An actuarial valuation was prepared by MUN's actuaries (valuation date of 31 March 2011) for the programs sponsored by MUN. The valuation was based on a number of assumptions about future events and include an interest rate of 5.2%, CPI of 3.0%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality. The assumptions used reflect MUN's best estimates of expected long-term rates and short-term forecasts.

**Group Health and Life Insurance Retirement Benefits Liability**

Details of the group health and life insurance retirement benefits liability are outlined in the table below:

| Plan                                     | Estimated<br>Accrued<br>Benefit<br>Obligation | Unamortized<br>Experience<br>Losses | Net<br>Liability<br>2011 | Net<br>Liability<br>2010 | Difference   |
|--|---|-------------------------------------|--------------------------|--------------------------|--------------|
|  | (\$mil)                                       | (\$mil)                             | (\$mil)                  | (\$mil)                  | (\$mil)      |
| Group health retirement benefits         | 2,192.0                                       | (366.6)                             | 1,825.4                  | 1,686.3                  | 139.1        |
| Group life insurance retirement benefits | 96.8  | (13.4)                              | 83.4                     | 81.3                     | 2.1          |
| <b>Total</b>                             | <b>2,288.8</b>                                | <b>(380.0)</b>                      | <b>1,908.8</b>           | <b>1,767.6</b>           | <b>141.2</b> |

There are no fund assets associated with these plans.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Group Health and Life Insurance Retirement Benefits Expense**

In these statements, group health and life insurance retirement benefits costs have been determined as the cost of benefits accrued during the period. Interest on the liability has been accrued for the same period.

The change in the liability for the current period is comprised of the following amounts:

| Plan                                     | Employer's                             |  | Employer's<br>Current<br>Period<br>Contributions | Current<br>Period                           | Other<br>Adjustments | Change       |
|--|--|--|--|---|----------------------|--------------|
|  | Share of<br>Current<br>Period<br>Costs | Interest<br>Expense<br>on the<br>Liability |  | Amortization<br>of<br>Experience<br>Changes |                      |              |
|  | (\$mil)                                | (\$mil)                                    | (\$mil)  | (\$mil)                                     | (\$mil)              | (\$mil)      |
| Group health retirement benefits         | 59.1                                   | 98.3                                       | (37.0)   | 18.7  | -                    | 139.1        |
| Group life insurance retirement benefits | 1.9                                    | 4.5  | (4.8)  | 0.5   | -                    | 2.1          |
| <b>Total</b>                             | <b>61.0</b>                            | <b>102.8</b>                               | <b>(41.8)</b>                                    | <b>19.2</b>                                 | <b>-</b>             | <b>141.2</b> |

Interest expense related to the group health and life insurance retirement benefits liability is included with interest as debt expenses in the financial statements. Interest expense for 31 March 2010 amounted to \$96.3 million.

**Experience Gains or Losses**

Experience gains or losses are amortized over the estimated average remaining service life of active participants. The amortization amount is included with retirement costs in the financial statements commencing in the year subsequent to the year in which the experience gain or loss arose.

**7. Retirement Benefits - Pensions****Defined Benefits**

The Government of Newfoundland and Labrador guarantees defined benefit pension plans for substantially all of its full time employees, and those of its Agencies, Boards and Commissions and for members of its Legislature. The plans are - the Public Service Pension Plan, Teachers' Pension Plan, Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan, and the Provincial Court Judges' Pension Plan. In addition, Memorial University of Newfoundland (MUN) also has a defined benefit pension plan for full time employees known as the Memorial University of Newfoundland Pension Plan. Combined, the plans have 42,378 participants as at 31 March 2011.

The Plans provide for pensions based on employees' length of service and highest average earnings. Employees contribute a defined percentage of their salary, and the employer generally matches this amount. As at 31 March 2011, the plans provided benefits to 25,717 pensioners. Inflation protection is not extended to pensioners of the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan nor to pensioners of the Teachers' Pension Plan who retired prior to 1 September 1998.

In 1980, the Province of Newfoundland and Labrador Pooled Pension Fund was established by the *Pensions Funding Act*, with the Minister of Finance as Trustee. This Fund administers all financial activity, including the collection of all contributions and the payment of pensions and the investment of funds for all the pension plans noted above with the exception of the Memorial University of Newfoundland Pension Plan. The financial activity of the Memorial University of Newfoundland Pension Plan is administered by MUN. The Consolidated Revenue Fund guarantees any deficiency in the event assets of a plan are insufficient to meet benefit payments or administration costs.

**Contribution and Benefit Formulae****Public Service Pension Plan**

Employee contributions are 8.6% of pensionable salary, less a formulated amount representing contributions to the Canada Pension Plan (CPP). A pension benefit is available based on the number of years of pensionable service times 2% of the employee's best five years average salary, reduced by a formulated amount representing CPP pension benefits for each year since 1967.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During 2006-07 plan legislation was enacted consistent with the two components of the Plan. The Registered component will continue to be administered within the Province of Newfoundland and Labrador Pooled Pension Fund and will provide benefits based on limits set out in the federal *Income Tax Act*. The Supplementary component is administered in the accounts of the Consolidated Revenue Fund and provides for the remainder of benefits under the Plan.

**Teachers' Pension Plan**

Employee contributions are 9.35% of pensionable salary. A pension benefit is available based on the number of years of pensionable service prior to 1 January 1991 times 1/45<sup>th</sup> of the employee's best five years average salary, plus 2% of the employee's best five years average salary times years of pensionable service after that date, reduced by a formulated amount representing CPP pension benefits for each year since 1967. The CPP reduction only applies to pensioners who retired after 31 August 1998.

During 2006-07 plan legislation was enacted consistent with the two components of the Plan. The Registered component is administered within the Province of Newfoundland and Labrador Pooled Pension Fund and provides benefits based on limits set out in the federal *Income Tax Act*. The Supplementary component is administered in the accounts of the Consolidated Revenue Fund and provides for the remainder of benefits under the Plan.

**Memorial University of Newfoundland Pension Plan**

Employee contributions are 9.8% of pensionable salary, less a formulated amount representing contributions to the CPP. A pension benefit is available based on the number of years of pensionable service times 2% of the employee's best five years average salary, reduced by a formulated amount representing CPP pension benefits for each year since 1967.

In addition to the above Registered component, in May 1996, MUN approved a Supplemental Retirement Income Plan to provide benefits to employees whose salaries exceed the maximum pensionable salary and whose defined benefit pension, therefore, exceeds the maximum benefits payable from the Memorial University of Newfoundland Pension Plan as per limits set out in the federal *Income Tax Act*. As well, in February and May 1996, MUN offered employees who reached the age of 55 and attained a minimum of 10 years pensionable service, an opportunity to take an early retirement under the provisions of the Voluntary Early Retirement Incentive Program. The program provided an incentive of enhanced pension benefits of up to five years pensionable service and waiver of actuarial reduction, if applicable, or a lump sum early retirement payment.

**Uniformed Services Pension Plan**

Employee contributions are 9.95% of pensionable salary, less a formulated amount representing contributions to the CPP. A pension benefit is available based on the number of years pensionable service times 2% of the employee's best three years average salary, reduced by a formulated amount representing CPP pension benefits since 1967. Grandfathered members have higher service accrual pensions in recognition of their higher contributions.

**Members of the House of Assembly Pension Plan**

Member contributions are 9% of pensionable salary, which includes salary as a Minister, if applicable. A pension benefit is available after serving as a Member in, at least, two General Assemblies and for, at least, five years. The benefit formula is based on years of service expressed as a percentage of the average pensionable salary for the best three years. The percentage varies being 5% for each of the first ten years, 4% for each of the next five years and 2.5% for each of the next two years of service as a Member. For members elected for the first time after 1 April 1998, the percentage is 5% for the first ten years and 2.5% for each of the next ten years. For members elected for the first time after 31 December 2009 the percentage is 3.5% for each year of service as a Member. The accrued benefit is reduced by a formulated amount representing CPP pension benefits for each year since 1967. Ministers receive an additional pension amount calculated similarly, based on service and pensionable salary as a Minister.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During 2005-06 the *Members of the House of Assembly Retiring Allowances Act* was enacted to restructure the Members of the House of Assembly Pension Plan into two components based on limits set out in the federal *Income Tax Act*. The first, or Registered component, is administered within the Province of Newfoundland and Labrador Pooled Pension Fund. The second, or the Supplementary Employee Retirement component, is administered in the accounts of the Consolidated Revenue Fund.

**Provincial Court Judges' Pension Plan**

Effective 1 April 2002 (pursuant to the *Provincial Court Judges' Pension Plan Act* enacted 8 June 2004) the Provincial Court Judges' Pension Plan was established with then-existing judges being given the one-time option of transferring from the Public Service Pension Plan. All judges appointed subsequent to 1 April 2002 are required to join this Plan. Employee contributions are 9% of pensionable salary. A pension benefit is available based on the number of years pensionable service times 3.33% of the judge's annual salary. The Registered component of the Plan, administered within the Province of Newfoundland and Labrador Pooled Pension Fund, provides benefits based on limits set out in the federal *Income Tax Act* with the remainder of the benefit provided by the Supplementary component. The Supplementary component is administered in the accounts of the Consolidated Revenue Fund.

**Actuarial Valuations**

The actuarial valuations which are prepared by the Province's and MUN's actuaries were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. The assumptions used reflect the Province's and MUN's best estimates of expected long-term rates and short-term forecasts. The expected interest and inflation rates follow:

**Expected Interest Rates**

The expected average interest rate for the Public Service Pension Plan is 7.25%. The expected rate for the Teachers' Pension Plan is 7.25% projected on a long-term basis. The expected rate for the Memorial University of Newfoundland Pension Plan for the Registered component is 6.5% and the Supplemental Retirement Income Plan and the Voluntary Early Retirement Income Plan is 5.2% projected on a long-term basis. The expected rate for the Uniformed Services Pension Plan is 7.25% projected on a long-term basis. The expected rate for the Members of the House of Assembly Pension Plan is 7.25% for the Registered component and 4.25% for the Supplementary Employee Retirement component, projected on a long-term basis. The expected rate for the Provincial Court Judges' Pension Plan is 6.75% for the Registered component and 4.25% for the Supplementary Employee Retirement component, projected on a long term basis.

**Expected Inflation Rates**

The expected inflation rate for MUN's pension plan is 3.5% and 2.5% for all other plans.

The latest actuarial valuations for the Province's pension plans, according to the administrators of those plans, are dated as listed in the following table:

| Pension Plan                        | Valuation Date   |
|-------------------------------------|------------------|
| Public Service                      | 31 December 2009 |
| Teachers'                           | 31 August 2009   |
| Memorial University of Newfoundland | 31 March 2010    |
| Uniformed Services                  | 31 December 2008 |
| Members of the House of Assembly    | 31 December 2006 |
| Provincial Court Judges'            | 31 December 2007 |

Actuarial extrapolations are provided for accounting purposes by the Province's and MUN's actuaries based on the above dates, unless otherwise noted.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Pension Liability**

Details of the pension liability are outlined in the table below. The estimated accrued benefit obligation and the value of the plan assets reported below have been extrapolated by the Province's and MUN's actuaries to 31 March 2011. The actual results of future valuations may result in variances from these extrapolations.

| Pension Plan                        | Estimated<br>Accrued<br>Benefit<br>Obligation | Fund<br>Assets | Unamortized<br>Experience<br>Losses | Net<br>Unfunded<br>Liability<br>2011 | Net<br>Unfunded<br>Liability<br>2010 | Change       |
|-------------------------------------|---|----------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------|
|                                     | (\$mil)                                       | (\$mil)        | (\$mil)                             | (\$mil)                              | (\$mil)                              | (\$mil)      |
| Public Service                      | 6,005.5                                       | 3,814.4        | (591.4)                             | 1,599.7                              | 1,330.3                              | 269.4        |
| Teachers'                           | 3,851.1                                       | 2,586.6        | (516.0)                             | 748.5                                | 567.6                                | 180.9        |
| Memorial University of Newfoundland | 1,126.8                                       | 827.5          | (219.7)                             | 79.6                                 | 62.5                                 | 17.1         |
| Uniformed Services                  | 346.8   | 165.8          | (19.4)                              | 161.6                                | 143.8                                | 17.8         |
| Members of the House of Assembly    | 90.4  | 13.3           | (8.8)                               | 68.3                                 | 65.7                                 | 2.6          |
| Provincial Court Judges'            | 13.2  | 3.9            | (0.5)                               | 8.8                                  | 7.3                                  | 1.5          |
| <b>Total</b>                        | <b>11,433.8</b>                               | <b>7,411.5</b> | <b>(1,355.8)</b>                    | <b>2,666.5</b>                       | <b>2,177.2</b>                       | <b>489.3</b> |

Pension Fund Assets, with the exception of the Memorial University of Newfoundland Pension Plan, are valued at the market value at 31 December 2010 and projected to year end. Pension Fund Assets for the Memorial University of Newfoundland Pension Plan are valued at the market value at 31 March 2011.

**Special Payments**

During the year, MUN made a special payment of \$4.7 million towards the balance of the 31 March 2010 unfunded liability.

**Pension Expense**

In these statements, pension costs have been determined as the cost of benefits accrued during the period. Interest on the unfunded liability has been accrued for the same period.

The change in the unfunded liability for the current period for each plan is comprised of the following amounts:

| Pension Plan                        | Province's<br>Share of<br>Pension<br>Benefits<br>Earned for<br>the Period | Pension<br>Interest<br>Expense on<br>the<br>Unfunded<br>Liability | Province's<br>Current<br>Period<br>Pension<br>Contributions | Current<br>Period<br>Amortization<br>of Experience<br>Changes | Other<br>Adjustments | Unfunded<br>Portion of<br>Current<br>Period<br>Pension<br>Change |
|-------------------------------------|---|---|---|---|----------------------|--|
|                                     | (\$mil)   | (\$mil)   | (\$mil)   | (\$mil)   | (\$mil)              | (\$mil)  |
| Public Service                      | 102.3   | 168.1   | (109.1)   | 108.1   | -                    | 269.4  |
| Teachers'                           | 29.2  | 97.0  | (41.3)  | 96.0  | -                    | 180.9  |
| Memorial University of Newfoundland | 24.0  | 17.1  | (42.9)  | 18.9  | -                    | 17.1   |
| Uniformed Services                  | 3.4   | 12.7  | (3.9)   | 5.6   | -                    | 17.8   |
| Members of the House of Assembly    | 2.0   | 3.2   | (6.4)   | 3.8   | -                    | 2.6  |
| Provincial Court Judges'            | 1.2   | 0.4   | (0.2)   | 0.1   | -                    | 1.5  |
| <b>Total</b>                        | <b>162.1</b>  | <b>298.5</b>  | <b>(203.8)</b>  | <b>232.5</b>  | <b>-</b>             | <b>489.3</b>   |

Pension interest expense is included with interest as debt expenses in the financial statements. Pension interest expense for 31 March 2010 amounted to \$336.9 million.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Experience Gains or Losses**

Experience gains or losses are amortized over the estimated average remaining service life of active contributors. The amortization amount is included with retirement costs in the financial statements commencing in the year subsequent to the year in which the experience gain or loss arose.

**Other Pension Plans**

The Government Money Purchase Pension Plan was established for employees whose employment status does not qualify them for participation in another of their employer's pension plans. This plan has approximately 30,772 participants. Employees contribute 5% of their salary to the Plan and the Province generally matches this contribution. Each employee will receive an annuity at retirement, the value of which is determined by their accumulated contributions plus investment earnings. This Plan is administered by the London Life Insurance Company and at 31 March 2011 assets had a market value of \$258.8 million (31 March 2010 - \$237.0 million).

**8. Prepaid and Deferred Charges**

Prepaid and deferred charges consist of:

|   | 31 March<br>2011 | 31 March<br>2010 |
|---|------------------|------------------|
|   | (\$mil)          | (\$mil)          |
| Workers' compensation fees .....              | 10.9             | 10.1             |
| Property taxes and other municipal fees ..... | 5.8              | 5.4              |
| Maintenance contracts .....                   | 5.7              | 6.0              |
| Software licences .....                       | 5.5              | 5.3              |
| Insurance costs .....                         | 4.4              | 3.9              |
| Computer network and accessories .....        | 3.2              | 4.6              |
| Library operating supplies .....              | 1.6              | 1.9              |
| Rent .....                                    | 0.7              | 0.9              |
| Membership fees and subscriptions .....       | 0.5              | 0.3              |
| Prepaid bursaries and travel costs .....      | 0.3              | 0.8              |
| Other prepaid and deferred charges .....      | 7.2              | 5.0              |
| Total: Prepaid and Deferred Charges .....     | <u>45.8</u>      | <u>44.2</u>      |

**9. Contingent Liabilities****(a) Guaranteed Debt**

Guarantees made by the Province as at 31 March 2011 amounted to \$1,012.1 million (31 March 2010 - \$1,035.2 million). In addition, the Province guaranteed the interest thereon. See Schedule 7 - Guaranteed Debt.

**(b) Legal Actions**

- (i) There have been a number of statements of claim alleging negligence on the part of Government employees and agencies in not preventing abuse while these claimants were under Government care.
- (ii) A number of claims have been filed against the Province for alleged breaches of contracts and/or tenders as well as for general damages and personal claims pursuant to action initiated by the Province.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**(c) Other****(i) Registrar of the Supreme Court**

The Province of Newfoundland and Labrador guarantees all sums required to discharge the balances of the Registrar of the Supreme Court as administrator, guardian, trustee, etc. (*Judicature Act*). See Schedule 8 - Trust Accounts.

**(ii) Pensions****a) Province of Newfoundland and Labrador Pooled Pension Fund**

Pursuant to Section 9 of the *Pensions Funding Act*, the Consolidated Revenue Fund is liable for any deficiency in the Province of Newfoundland and Labrador Pooled Pension Fund covered by that Act. See note 7.

**b) Memorial University of Newfoundland Pension Fund**

Pursuant to Section 6 of the *Memorial University Pensions Act*, if there is insufficient money in the Memorial University of Newfoundland Pension Fund to provide for the payment of applicable expenditures as they fall due, the Consolidated Revenue Fund is liable for payment of an amount to cover the deficiency. As at 31 March 2011, the Memorial University of Newfoundland Pension Plan had a net unfunded pension liability for funding purposes of \$317.5 million (31 March 2010 - \$292.5 million). However, there currently exists sufficient money in the Fund for the payment of expenditures as they fall due. See note 7.

**(iii) Trust Accounts**

Generally, the Province is contingently liable for any shortage that may occur for certain funds held in trust by the Province. Currently, all obligations held have an offsetting asset. See Schedule 8 - Trust Accounts.

**(iv) Canadian Saltfish Corporation**

On 17 July 1970, the Province entered into an agreement with the Government of Canada for the marketing of saltfish products by the Canadian Saltfish Corporation (the Corporation), pursuant to the *Saltfish Act*. The Agreement provided that the Province is required to pay to the Government of Canada a proportional share of 50 per cent of the losses of the Corporation. This share is based on the total value of annual sales of cured fish products applicable to each participating province.

On 19 February 1993, the Government of Canada requested that the Province compensate it for losses incurred to 31 March 1992. The amount which the Government of Canada calculated as the Province's share of the losses was \$21.6 million.

The Corporation was dissolved with effect from 01 April 1995, so that resolution of the matter will be between the Government of Canada and the Province. However, the Province takes the position that for a number of reasons, including the fact that the Corporation engaged in activities beyond its mandate as determined by the Auditor General of Canada and confirmed by the Department of Justice of Canada, it is not liable for the amount claimed.

**(v) Newfoundland and Labrador Student Loans Program**

Under the loan guarantee component of this Program, the Province has issued guarantees totalling \$0.1 million. Under the debt reduction component of the Program, the Province is contingently liable for possible grants totalling \$10.9 million, of which \$8.8 million has been recorded as a provision for likely amounts payable related to student loans due to the debt reduction component. See Schedule 5 - Payables, Accrued and Other Liabilities.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(vi) *Environmental Responsibility*

As a result of delivering its stated programs and initiatives, there are a number of sites throughout the Province which are considered potentially contaminated sites. A liability will be accrued in the financial statements when it has been determined that the Province is liable for a site which has become contaminated and where a reasonable estimate of the remediation costs can be made. To date, \$21.6 million has been recorded (see Schedule 5 - Payables, Accrued and Other Liabilities). Where it is uncertain as to whether an obligation exists for the Province to remediate a contaminated site, then information on any such sites will be disclosed as contingent liabilities.

As at 31 March 2011, while the Province is aware of a number of contaminated sites, the full extent of the remediation costs for these known sites is not readily determinable other than those indicated below. It is the responsibility of the departments and entities to identify any other potentially contaminated sites which are owned by the Province and to collect the information necessary to assess the extent or likelihood of any environmental damage. As contaminated sites are identified, additional environmental liabilities may be recognized or contingent liabilities disclosed due to newly identified sites and/or changes in the assessments of currently known sites.

*Former Abitibi-Consolidated Sites*

In December 2008, the Province passed legislation entitled *Abitibi-Consolidated Rights and Assets Act*, to expropriate certain rights and assets from Abitibi-Consolidated. Abitibi-Consolidated filed for creditor protection, and was granted a stay of creditor proceedings under the *Companies' Creditor Arrangements Act* ("CCAA") on 17 April 2009. The Province petitioned the CCAA court for a declaration that Abitibi-Consolidated is responsible for full compliance with the Provincial *Environmental Protection Act*, including clean-up of its former sites. The CCAA court ruled that any claims that the Province may have regarding clean-up of the former sites can be compromised and extinguished by the CCAA process, the practical effect of which is that the Province could bear the burden of clean-up of these sites.

In November 2010, the Province was granted leave to appeal this issue to the Supreme Court of Canada. Until the appeal is heard, the Province cannot determine the likelihood of whether it will be ultimately responsible for environmental remediation. While it has been determined that the sites do contain contamination, the exact cost will not be known until Abitibi-Consolidated submits remediation plans, and until the Province completes further environmental assessments, human health risk assessments and risk analysis. A liability for \$5.0 million has been recorded for work completed subsequent to year-end to address an immediate health risk at one of the sites.

*Former Mining Sites*

The Province owns two former mining sites which have estimated costs for remediation that are potentially significant; the former Baie Verte Asbestos Mine (order of magnitude costs of \$40.0 million) and the former Consolidated Rambler Mines Copper Mine (order of magnitude costs of \$95.0 million). The Province has completed rehabilitation at these sites designed to address human health and safety issues. No remediation expenditures are planned for the next five years. In addition to these two sites, the Province, by way of the Mineral Strategy, is seeking to complete an inventory and risk based priority list of orphaned and abandoned mines.

*Newfoundland and Labrador Housing Corporation Sites*

Possible environmental liabilities exist for the Newfoundland and Labrador Housing Corporation in relation to the following: potential large quantities of fuel left in abandoned fuel storage facilities in the Stephenville area; environmental contaminants including hydrocarbons and various heavy metals in soil and groundwater on 20 hectares in the Paradise area; underground fuel tanks in various property locations in St. John's; and, a possible environmental liability relating to electrical transformers containing polychlorinated biphenyls (PCBs) located around various St. John's properties. The expenditures to date for environmental remediation of these sites is \$3.3 million with future site restoration costs estimated at \$20.0 million.



## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**10. Contractual Obligations**

Contractual obligations consist of:

|                                       | 31 March<br>2011 | 31 March<br>2010 |
|---------------------------------------|------------------|------------------|
|                                       | (\$mil)          | (\$mil)          |
| Capital projects .....                | 774.4            | 501.4            |
| Economic development .....            | 139.6            | 52.5             |
| Lease payments .....                  | 125.4            | 111.7            |
| Power Purchase Agreements .....       | 125.2            | 142.8            |
| Transmission Service Agreements ..... | 63.0             | 81.6             |
| Provincial policing agreement .....   | 58.5             | 116.5            |
| Information technology services ..... | 48.2             | 24.9             |
| Ferry services .....                  | 23.5             | 51.2             |
| Letters of Credit .....               | 22.4             | 9.7              |
| Telephone services .....              | 12.4             | 16.6             |
| Forestry management .....             | 10.9             | 13.7             |
| Reserve fund .....                    | 10.5             | -                |
| Energy savings projects .....         | 4.6              | 5.3              |
| Food services .....                   | 1.3              | 5.9              |
| Other agreements .....                | 33.2             | 18.3             |
| Total: Contractual Obligations .....  | <u>1,453.1</u>   | <u>1,152.1</u>   |

Contractual obligations are those to outside organizations in respect of contracts entered into before 31 March 2011. These contractual obligations will become liabilities when the terms of the contracts are met. Payments in respect of these contracts and agreements for the Consolidated Revenue Fund are subject to voting of supply by the Legislature.

**11. Externally Restricted Assets**

Externally restricted assets amount to \$101.3 million (31 March 2010 - \$59.6 million) of which \$94.5 million relates to Memorial University of Newfoundland which consists primarily of assets held for endowment purposes whereby the principal is not expendable. Income earned on these assets is required to be used for the purpose specified by the donors and hence can not be used for other operating purposes. The externally restricted assets consist of donations and investments which are to be used for scholarships, assistance, professional recruitment and development, equipment and other external endowments. Externally restricted assets of other entities amount to \$6.8 million which relate to various donations designated for specified purposes.

**12. Provision for Guaranteed Debt**

The provision for probable losses on guaranteed debt (see note 9(a)) is nil (31 March 2010 - nil).

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**13. Government Organization Changes**

The Net Debt and Accumulated Deficit at 31 March 2011 has been increased by \$3.8 million to reflect the change to the prior year's amounts in the 31 March 2010 financial statements of certain entities. The \$3.8 million is comprised of a \$5.3 million decrease and a \$9.1 million increase. The \$5.3 million relates to differences in accounting policies for a Government Business Enterprise. Specifically, it relates to recognizing accumulated other comprehensive income arising from changes in fair value of financial instruments, derivative instruments and hedging activities. This amount is offset by \$9.1 million which relates to other differences in entities' accounting policies and restatements. The Net Debt and Accumulated Deficit at 31 March 2010 has been decreased by \$19.6 million to reflect the change to the prior year's amounts in the 31 March 2009 financial statements of certain entities. These changes have been applied retroactively without restatement.

**14. Measurement Uncertainty**

Measurement uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Estimates are based on the best information available at the time of preparation of the financial statements and are adjusted annually to reflect new information as it becomes available. Some examples of where measurement uncertainty exists are the accrual of retirement benefits, the allowance for guaranteed debt and the accrual of self-insured workers' compensation benefits.

**15. Borrowing Contributions (Requirements)**

The following summary compares the actual amounts for the year ended 31 March 2011 with amounts included in Statement I (Summary of Cash Requirement) of the Estimates approved by the Legislature. Please refer to the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for the year ended 31 March 2011 for further information on the calculation of the Total Borrowing Contribution - CRF of \$163.6 million noted below.

| Borrowing Contributions (Requirements)             | Actual  | Estimates | Increase<br>(Decrease) |
|--|---------|-----------|------------------------|
|  | (\$mil) | (\$mil)   | (\$mil)                |
| CRF .....  | 163.6   | (959.3)   | (1,122.9)              |
| Other Entities .....                               | 41.9    | -         | (41.9)                 |
| Total Borrowing Contributions (Requirements) ..... | 205.5   | (959.3)   | (1,164.8)              |

**16. Subsequent Event**

Subsequent to year end, on November 18, 2011, the Province signed the Upper Churchill Redress Agreement (UCRA) with Nalcor Energy, Innu Nation, Mushuau Innu First Nation, and Sheshatshiu Innu First Nation. As per the UCRA, Nalcor Energy shall pay to Innu Nation \$2.0 million annually (escalated by 2.5% annually) which payment will terminate on August 31, 2041 and be replaced by a percentage share of Nalcor's revenues from the existing Churchill Falls Hydro-Electric development.

The UCRA provides the Province and Nalcor Energy with a comprehensive release and indemnity against claims by the Labrador Innu relating to the adverse environmental effects and the impacts upon asserted aboriginal rights and title resulting from the current Churchill Falls Hydro-Electric development. It provides final compensation to the Labrador Innu in respect of the Province and Nalcor for any and all adverse environmental effects and any and all impacts upon asserted aboriginal rights and title associated with the current Churchill Falls Hydro-Electric development. This agreement settles the Labrador Innu's outstanding grievance against the Province and Nalcor with regard to damage, if any, to lands and resources claimed by Labrador Innu which resulted from the flooding caused by the Upper Churchill River development in the 1960's.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**17. Original Estimates**

Certain amounts in the statements and exhibits of the 2010-11 Budget Speech shown for comparative purposes were prepared on the accrual basis as described under note 1(c)(i).

In addition, amounts for Net Debt (Consolidated Statement of Change in Net Debt) as per these statements and exhibits have also been presented for comparative purposes.

**18. Additional Notes**

In addition to the aforementioned, there are various other notes disclosed in the schedules which follow.

**19. Comparatives**

Certain of the 31 March 2010 financial statement figures and related schedules have been restated to be consistent with the 31 March 2011 statement presentation.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Receivables As at 31 March 2011 with comparative figures for 2010

|   | 2011      | 2010    |
|---|-----------|---------|
|   | (\$000)   | (\$000) |
| Accounts receivable .....                   | 732,236   | 713,349 |
| Taxes receivable .....                      | 219,609   | 142,672 |
| Due from Government of Canada .....         | 183,511   | 114,260 |
| Accrued interest receivable .....           | 14,361    | 14,320  |
|   | 1,149,717 | 984,601 |
| Less: Allowance for doubtful accounts ..... | 91,808    | 86,381  |
| Total: Receivables .....                    | 1,057,909 | 898,220 |

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Loans, Advances and Investments As at 31 March 2011 with comparative figures for 2010

|  | 2011    | 2010    |
|--|---------|---------|
|  | (\$000) | (\$000) |
| Loans and Advances   |         |         |
| Student loans .....  | 170,279 | 187,124 |
| Municipalities .....   | 86,223  | 106,692 |
| Commercial .....   | 66,350  | 65,456  |
| Housing .....  | 7,365   | 7,486   |
| Other .....  | 382     | 7,141   |
| Total: Loans and Advances .....  | 330,599 | 373,899 |
| Less: Allowance for doubtful loans and advances .....                              | 92,966  | 100,582 |
| Provision for loan repayments through future appropriations (municipalities) ..... | 84,459  | 100,107 |
|  | 153,174 | 173,210 |
| Investments  |         |         |
| Equity Investments:  |         |         |
| Administered by Memorial University of Newfoundland .....                          | 37,400  | 31,245  |
| Administered by Newfoundland & Labrador Film Development Corporation .....         | 18,956  | 15,798  |
| Administered by Business Investment Corporation .....                              | 17,258  | 19,937  |
| Cold Ocean Salmon Inc. ....  | 10,000  | 8,250   |
| Country Ribbon Inc. ....   | 4,500   | 4,500   |
| Icewater Seafoods Inc. ....  | 3,500   | 3,500   |
| ACF Equity Atlantic Inc. ....  | 2,231   | 2,231   |
| Northern Harvest Sea Farms Newfoundland Ltd. ....                                  | 2,000   | -       |
| Burton's Cove Logging and Lumber .....   | 1,800   | -       |
| Administered by Janeway Children's Hospital Foundation .....                       | 1,203   | 1,140   |
| Gray Aqua Group Ltd. ....  | 1,000   | 1,000   |
| Orphan Industries Limited. ....  | 970     | 970     |
| Administered by Multi-Materials Stewardship Board .....                            | 768     | 756     |
| Blue Drop Inc .....  | 500     | 500     |
| Blue Line Innovations Inc. ....  | 500     | 500     |
| Consilient Technologies Corporation .....  | 500     | 500     |
| Dynamic Air Shelters Ltd. ....   | 500     | 500     |
| Newfound Genomics Inc. ....  | 500     | 500     |
| Newlab Clinical Research Inc. ....   | 500     | 500     |
| Sexton Lumber Co. Ltd .....  | 500     | 500     |
| SAC Mfg. Inc .....   | 500     | 500     |
| Other .....  | 3,636   | 3,287   |
|  | 109,222 | 96,614  |

## SUMMARY FINANCIAL STATEMENTS

## LOANS, ADVANCES AND INVESTMENTS (continued)

|   | 2011                      | 2010                      |
|---|---------------------------|---------------------------|
|   | (\$000)                   | (\$000)                   |
| Other Investments:  |                           |                           |
| Administered by Newfoundland and Labrador Immigrant Investor Fund Limited ..... | 88,774                    | -                         |
| Memorial University of Newfoundland - Fixed Income .....                        | 39,387                    | 44,458                    |
| Administered by Janeway Children's Hospital Foundation .....                    | 4,269                     | 2,543                     |
| Dr. H. Bliss Murphy Cancer Care Foundation - Endowment Funds investments .....  | 1,081                     | 1,001                     |
| Government of Canada Coupon investments .....                                   | 313                       | 657                       |
|   | <u>133,824</u>            | <u>48,659</u>             |
| <br>Total: Investments .....  | <br><u>243,046</u>        | <br><u>145,273</u>        |
| <br>Less: Allowance for write-down of investments .....                         | <br><u>41,911</u>         | <br><u>38,770</u>         |
|   | <u>201,135</u>            | <u>106,503</u>            |
| <br>Total: Loans, Advances and Investments .....                                | <br><u><u>354,309</u></u> | <br><u><u>279,713</u></u> |

**NOTE****Interest Rates**

Interest rates for all loans range from non-interest bearing to 14.0% and are repayable over terms not exceeding 30 years.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Equity in Government Business Enterprises As at 31 March 2011 with comparative figures for 2010

|   | NL Liquor<br>Corporation<br>2 Apr 2011 | Nalcor<br>Energy<br>31 Dec 2010 | Total<br>2011    | Total<br>2010    |
|---|--|---------------------------------|------------------|------------------|
|   | (\$000)                                | (\$000)                         | (\$000)          | (\$000)          |
| Equity - beginning of year . . . . .                | 62,315                                 | 1,182,000                       | 1,244,315        | 1,131,877        |
| Net income for year . . . . .                       | 132,013                                | 77,500                          | 209,513          | 190,938          |
| Accumulated other comprehensive income - see note.. | -                                      | 5,300                           | 5,300            | 5,500            |
| Capital transactions:                               |  |                                 |                  |                  |
| Transfers from government . . . . .                 | -                                      | 16,000                          | 16,000           | 40,000           |
| Transfers to government . . . . .                   | (132,000)                              | -                               | (132,000)        | (124,000)        |
| Equity - end of year . . . . .                      | <u>62,328</u>                          | <u>1,280,800</u>                | <u>1,343,128</u> | <u>1,244,315</u> |
| Equity represented by:                              |  |                                 |                  |                  |
| Assets  |  |                                 |                  |                  |
| Cash and temporary investments . . . . .            | 28,693                                 | 60,200                          | 88,893           | 90,700           |
| Receivables . . . . .                               | 9,576                                  | 135,000                         | 144,576          | 164,945          |
| Oil and gas properties . . . . .                    | -                                      | 254,400                         | 254,400          | 193,800          |
| Inventories . . . . .                               | 32,702                                 | 63,000                          | 95,702           | 91,270           |
| Prepaid and deferred charges . . . . .              | 4,285                                  | 74,400                          | 78,685           | 80,007           |
| Investments . . . . .                               | -                                      | 1,700                           | 1,700            | 7,000            |
| Reserve Fund . . . . .                              | -                                      | 39,300                          | 39,300           | 34,800           |
| Capital and intangible assets . . . . .             | <u>16,442</u>                          | <u>1,968,700</u>                | <u>1,985,142</u> | <u>1,919,713</u> |
| Total Assets . . . . .                              | <u>91,698</u>                          | <u>2,596,700</u>                | <u>2,688,398</u> | <u>2,582,235</u> |
| Liabilities   |  |                                 |                  |                  |
| Accounts payable and accruals . . . . .             | 29,370                                 | 376,800                         | 406,170          | 335,320          |
| Deferred Government assistance . . . . .            | -                                      | 2,600                           | 2,600            | 3,100            |
| Borrowings . . . . .                                | -                                      | <u>936,500</u>                  | <u>936,500</u>   | <u>999,500</u>   |
| Total Liabilities . . . . .                         | <u>29,370</u>                          | <u>1,315,900</u>                | <u>1,345,270</u> | <u>1,337,920</u> |
| Equity . . . . .                                    | <u>62,328</u>                          | <u>1,280,800</u>                | <u>1,343,128</u> | <u>1,244,315</u> |

#### NOTE

#### Other Comprehensive Income

Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. Comprehensive income is the change in equity (net assets) of an enterprise during a period of transactions and other events and circumstances from non-owner sources.

## SUMMARY FINANCIAL STATEMENTS

Schedule 4

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Net Income of Government Business Enterprises  
For the year ended 31 March 2011  
with comparative figures for 2010**

|                                | NL Liquor<br>Corporation<br>2 Apr 2011 | Nalcor<br>Energy<br>31 Dec 2010 | Total<br>2011         | Total<br>2010         |
|--------------------------------|--|---------------------------------|-----------------------|-----------------------|
|                                | (\$000)                                | (\$000)                         | (\$000)               | (\$000)               |
| Revenue                        |  |                                 |                       |                       |
| Revenue from operations .....  | <u>272,099</u>                         | <u>620,100</u>                  | <u>892,199</u>        | <u>815,785</u>        |
| Expense                        |  |                                 |                       |                       |
| Expenses from operations ..... | <u>140,086</u>                         | <u>542,600</u>                  | <u>682,686</u>        | <u>624,847</u>        |
| Net income .....               | <u><u>132,013</u></u>                  | <u><u>77,500</u></u>            | <u><u>209,513</u></u> | <u><u>190,938</u></u> |



## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Payables, Accrued and Other Liabilities As at 31 March 2011 with comparative figures for 2010

|   | 2011      | 2010      |
|---|-----------|-----------|
|   | (\$000)   | (\$000)   |
| Accrued salaries and employee benefits - note 1 ..... | 825,747   | 764,785   |
| Accounts payable .....                                | 716,708   | 549,549   |
| Due to Government of Canada .....                     | 603,945   | 589,036   |
| Accrued interest payable .....                        | 151,908   | 157,799   |
| Due to municipalities .....                           | 83,001    | 104,387   |
| Capital leases - note 2 .....                         | 32,483    | 35,333    |
| Environmental liabilities .....                       | 21,615    | 21,101    |
| Provision for student loan debt reduction .....       | 8,844     | 9,833     |
| Other .....   | 13,361    | 13,780    |
| Total: Payables, Accrued and Other Liabilities .....  | 2,457,612 | 2,245,603 |

#### NOTES

##### 1. Self-Insured Workers' Compensation Benefits

Accrued salaries and employee benefits include an amount of \$31.8 million related to the self-insured workers' compensation benefits liability as at 31 March 2011 (31 March 2010 - \$31.8 million). During the 2010-11 fiscal year, an actuarial valuation as of 31 December 2010, with disclosures as at 31 March 2011, was obtained for the Province's self-insured workers' compensation benefits.

##### 2. Capital Leases

Interest rates for all capital leases range from 3.24% to 11.5% and have repayment schedules ranging in duration from less than a year to 13 years.

## SUMMARY FINANCIAL STATEMENTS

Schedule 6

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Borrowings**  
**As at 31 March 2011**  
**with comparative figures for 2010**

|  | 2011                |                         |                   |                           | 2010              |
|--|---------------------|-------------------------|-------------------|---------------------------|-------------------|
|  | Total<br>Borrowings | Sinking Fund<br>Balance | Net<br>Borrowings | Interest<br>Rate<br>Range | Net<br>Borrowings |
|  | (\$000)             | (\$000)                 | (\$000)           | (%)                       | (\$000)           |
| <b>Consolidated Revenue Fund</b>                                       |                     |                         |                   |                           |                   |
| Treasury bill borrowings . . . . .                                     | 492,721             | -                       | 492,721           | 1.00 - 1.08               | 493,744           |
| General debentures . . . . .   | 5,208,527           | 924,322                 | 4,284,205         | 4.50 - 11.00              | 4,613,598         |
| Sun Life Assurance Company of<br>Canada . . . . .                      | 97,051              | -                       | 97,051            | 7.52 - 9.20               | -                 |
| Government of Canada . . . . .   | 376,180             | -                       | 376,180           | 4.91 - 10.04              | 416,636           |
|  | <u>6,174,479</u>    | <u>924,322</u>          | <u>5,250,157</u>  |                           | <u>5,523,978</u>  |
| Health care organizations . . . . .                                    | 180,205             | 10,670                  | 169,535           | prime-1.1-<br>10.50       | 175,831           |
| Student Loan Corporation of<br>Newfoundland and Labrador . . . . .     | 142,000             | -                       | 142,000           | 0.52 - 1.28               | 156,000           |
| Newfoundland and Labrador Municipal<br>Financing Corporation . . . . . | 80,378              | -                       | 80,378            | 4.55 - 6.85               | 98,944            |
| Newfoundland and Labrador Housing<br>Corporation . . . . .             | 25,596              | -                       | 25,596            | 2.75                      | 24,777            |
| Memorial University of Newfoundland                                    | 17,107              | -                       | 17,107            | 5.19 - 5.88               | 18,396            |
| School Districts . . . . .   | 11,152              | -                       | 11,152            | prime-1 - 5.46            | 13,718            |
| Total: Borrowings . . . . .  | <u>6,630,917</u>    | <u>934,992</u>          | <u>5,695,925</u>  |                           | <u>6,011,644</u>  |

See accompanying notes.

## SUMMARY FINANCIAL STATEMENTS

**NOTES TO THE SCHEDULE OF BORROWINGS**  
**As at 31 March 2011**

**1. Borrowings**

Borrowings and unamortized foreign exchange losses, by major currency, and sinking funds as at 31 March 2011 are as follows:

| Major Currencies | Foreign Borrowings     | Exchange Rate | Canadian         | Unamortized Foreign Exchange Gains/(Losses) | Net              |
|------------------|------------------------|---------------|------------------|---|------------------|
|                  | (\$000)                |               | (\$000)          | (\$000)                                     | (\$000)          |
| U.S.             | 1,050,000              | 0.9696        | 1,018,080        | 286,849                                     | 1,304,929        |
| Canadian         |                        |               | 5,612,837        | -   | 5,612,837        |
|                  | Sub-total              |               | 6,630,917        | 286,849                                     | 6,917,766        |
|                  | Foreign sinking funds  |               | (281,596)        | (68,493)                                    | (350,089)        |
|                  | Canadian sinking funds |               | (653,396)        | -   | (653,396)        |
|                  | Total                  |               | <u>5,695,925</u> | <u>218,356</u>                              | <u>5,914,281</u> |

**2. Contributions and Repayment Requirements**

Sinking fund contributions and debt repayments which are not funded by a sinking fund, by major currency, in Canadian dollars are as follows:

|           | U.S.          | Canadian         | Total            |
|-----------|---------------|------------------|------------------|
|           | (\$000)       | (\$000)          | (\$000)          |
| 2011-2012 | 7,030         | 480,271          | 487,301          |
| 2012-2013 | 7,030         | 102,508          | 109,538          |
| 2013-2014 | 7,030         | 61,698           | 68,728           |
| 2014-2015 | 7,030         | 356,433          | 363,463          |
| 2015-2016 | 7,030         | 325,715          | 332,745          |
| 2016-2043 | 26,664        | 1,376,884        | 1,403,548        |
|           | <u>61,814</u> | <u>2,703,509</u> | <u>2,765,323</u> |

**3. Foreign Exchange Gain**

The foreign exchange gain which has been recognized on the Consolidated Statement of Operations is \$17.8 million (31 March 2010 - \$0.8 million).

**4. Sensitivity Analysis**

An increase/decrease of one cent in the foreign exchange rates at 31 March 2011 would result in an increase/decrease in foreign borrowings of \$10.5 million (31 March 2010 - \$10.5 million).

**5. Related Sinking Fund Investments**

At year end, the Province held \$625.7 million worth of its own debentures (face value) in sinking funds as active investments (31 March 2010 - \$637.2 million) which are reflected in the sinking fund balances disclosed in note 1 above. These were comprised of \$505.2 million in Canadian investments and \$120.5 million in US investments.

## SUMMARY FINANCIAL STATEMENTS

## NOTES TO THE SCHEDULE OF BORROWINGS (continued)

**6. Debt Related Risk**

The practice of borrowing in both domestic and foreign currencies may potentially give rise to a number of risks including interest rate, credit, foreign exchange and liquidity risk. Interest rate risk is the risk that debt servicing costs will increase due to changes in interest rates while credit risk is the risk that a loss may occur from the failure of another party to meet its obligations under a derivative financial instrument contract. As well, foreign exchange risk is the risk that debt servicing costs will increase due to a decline in the value of the Canadian dollar relative to other currencies while liquidity risk is the risk that financial commitments will not be met over the short-term.

The Province attempts to manage its exposure to these risks and minimize volatility in its debt expenses by following a conservative debt and risk management strategy. The Province's debt portfolio is structured such that virtually all of its debt is long-term with fixed interest rates and fixed repayment terms. When appropriate and the option is available, debt with high interest rates has been called and refinanced with new lower interest rate debt. Otherwise, debt is generally held until maturity. Hence, the Province's exposure to interest rate and credit risk is minimal as a result of its conservative debt management strategy.

While the majority of the Province's debt is domestic in nature, there are a number of US dollar denominated debt issues. All of these are long-term issues and the Province has established sinking funds, also in US dollars, to provide repayment of the debt at maturity. For debt servicing purposes, short-term forward contracts are occasionally entered into when favorable exchange rates are available to minimize exposure to foreign exchange risk.

The Province's exposure to liquidity risk is managed by distributing debt maturities over several years, maintaining sinking funds for the repayment of certain long-term debt issues and holding adequate cash reserves or short-term borrowings as contingent sources of liquidity.

Nalcor Energy operates in an environment with various forms of financial risk including changes in interest rates, and fluctuation in foreign currency exchange rates and commodity prices. Nalcor Energy utilizes a combination of financial instruments and portfolio management to manage these risks. Net borrowings of Nalcor Energy is reflected in the Equity in government business enterprises on the Consolidated Statement of Financial Position.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Guaranteed Debt As at 31 March 2011 with comparative figures for 2010

|                                       | 2011      | 2010      |
|---------------------------------------|-----------|-----------|
|                                       | (\$000)   | (\$000)   |
| Guaranteed Debentures                 |           |           |
| Newfoundland and Labrador Hydro ..... | 976,612   | 1,000,275 |
| Municipalities .....                  | 474       | 488       |
|                                       | 977,086   | 1,000,763 |
| Guaranteed Bank Loans                 |           |           |
| Fisheries .....                       | 28,789    | 31,345    |
| Other corporations .....              | 6,241     | 3,065     |
|                                       | 35,030    | 34,410    |
| Total: Guaranteed Debt .....          | 1,012,116 | 1,035,173 |

#### NOTES

**1. Limit of Loan Guarantees**

The limit of loan guarantees for Guaranteed Debentures is \$977.1 million and \$45.6 million for Guaranteed Bank Loans.

**2. Provision for Guaranteed Debt**

The provision for probable losses on guaranteed debt is nil (31 March 2010 - nil).

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Trust Accounts As at 31 March 2011 with comparative figures for 2010

|  | 2011    | 2010    |
|--|---------|---------|
|  | (\$000) | (\$000) |
| Registrar of the Supreme Court .....                   | 32,766  | 33,680  |
| Teachers' Accrued Salary Trust Account .....           | 8,726   | 7,387   |
| Federal/Provincial Contractors' Security Account ..... | 6,516   | 4,068   |
| Rate Stabilization Fund .....                          | 6,025   | 4,923   |
| Patients' Funds Held in Trust .....                    | 5,586   | 5,390   |
| Scholarships and Awards .....                          | 3,107   | 2,040   |
| Consolidated Tender Account .....                      | 2,048   | 2,351   |
| Replacement Reserve Funds .....                        | 1,472   | 1,591   |
| Support Enforcement .....                              | 1,157   | 1,084   |
| Provincial Courts Trust Account .....                  | 452     | 365     |
| Provincial Nominee Program .....                       | 241     | 703     |
| Other Trust Accounts .....                             | 1,598   | 1,285   |
| Total: Trust Accounts .....                            | 69,694  | 64,867  |

#### NOTE

##### **Workplace, Health, Safety and Compensation Commission**

The Workplace, Health, Safety and Compensation Commission (the Commission) is considered to be a form of trust. For the most recent fiscal year ended 31 December 2010, the Commission reported a net fund deficiency of \$54.0 million (31 December 2009 - net fund deficiency of \$105.9 million) and an accumulated operating deficit of \$78.8 million (31 December 2009 - \$104.7 million). Under legislation, no liability on behalf of the Province has been established.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Tangible Capital Assets As at 31 March 2011 with comparative figures for 2010

| Category                  | Original Cost               |                   |                   | Accumulated Amortization    |                             |                                       |                             | Net Book Value<br>31 March<br>2011 | Net Book Value<br>31 March<br>2010 |
|---------------------------|-----------------------------|-------------------|-------------------|-----------------------------|-----------------------------|---------------------------------------|-----------------------------|------------------------------------|------------------------------------|
|                           | Balance<br>31 March<br>2010 | Additions<br>2011 | Disposals<br>2011 | Balance<br>31 March<br>2011 | Balance<br>31 March<br>2010 | Amort.<br>Net of<br>Disposals<br>2011 | Balance<br>31 March<br>2011 |                                    |                                    |
|                           | (\$mil)                     | (\$mil)           | (\$mil)           | (\$mil)                     | (\$mil)                     | (\$mil)                               | (\$mil)                     | (\$mil)                            | (\$mil)                            |
| Buildings                 | 2,539.6                     | 225.4             | 7.4               | 2,757.6                     | 1,262.7                     | 76.4                                  | 1,339.1                     | 1,418.5                            | 1,276.9                            |
| Marine vessels & aircraft | 98.8                        | 61.3              | 14.6              | 145.5                       | 78.4                        | (10.5)                                | 67.9                        | 77.6                               | 20.4                               |
| Equipment & machinery     | 1,202.4                     | 103.9             | 13.1              | 1,293.2                     | 873.5                       | 67.2                                  | 940.7                       | 352.5                              | 328.9                              |
| Infrastructure            | 3,970.6                     | 251.8             | 0.7               | 4,221.7                     | 3,442.0                     | 71.3                                  | 3,513.3                     | 708.4                              | 528.6                              |
| Computer software         | 74.3                        | 5.7               | -                 | 80.0                        | 52.0                        | 6.0                                   | 58.0                        | 22.0                               | 22.3                               |
| Sub-total                 | <u>7,885.7</u>              | <u>648.1</u>      | <u>35.8</u>       | <u>8,498.0</u>              | <u>5,708.6</u>              | <u>210.4</u>                          | <u>5,919.0</u>              | <u>2,579.0</u>                     | <u>2,177.1</u>                     |
| Work in progress          |                             |                   |                   | <u>534.4</u>                |                             |                                       |                             | <u>534.4</u>                       | <u>437.3</u>                       |
| Total                     |                             |                   |                   | <u>9,032.4</u>              |                             |                                       |                             | <u>3,113.4</u>                     | <u>2,614.4</u>                     |

#### NOTES

#### 1. Tangible Capital Assets

Tangible capital assets are capitalized on the Consolidated Statement of Financial Position with the cost of the assets amortized over the estimated useful life of the assets.

#### 2. Work In Progress

Work in progress is considered to be a tangible capital asset, however it is not amortized as it is not yet available for use. Government currently has a number of projects under construction or development with a total for 31 March 2011 of \$534.4 million (31 March 2010 - \$437.3 million) having been spent on these projects to date. Upon completion, these assets are recorded in the appropriate category in the schedule. The additions of \$648.1 million include \$207.6 million of work in progress assets that have been capitalized in the year. Additions to work in progress assets amount to \$304.7 million for 2010-11.

#### 3. Amortization Expense

Amortization net of disposals in the amount of \$210.4 million as reported in the schedule consists of amortization expense of \$240.5 million less accumulated amortization on assets disposed of in the year in the amount of \$30.7 million. The remaining \$0.6 million is the result of adjustments by certain entities.

Amortization net of disposals as at 31 March 2010 was \$159.6 million which consisted of amortization expense of \$199.6 million less accumulated amortization on assets disposed of in the year in the amount of \$39.2 million. The remaining deduction of \$0.8 million is the result of adjustments by certain entities, the inclusion of additional entities and the removal of an entity from the Government reporting entity.

## SUMMARY FINANCIAL STATEMENTS

## TANGIBLE CAPITAL ASSETS (continued)

**4. Estimated Useful Life**

The historic cost of the assets is estimated in many cases, and amortization is calculated on a straight line basis over the following useful lives:

| <u>Asset</u>                         | <u>Estimated<br/>Useful Life</u> |
|--------------------------------------|----------------------------------|
| Buildings                            | 40 years                         |
| Marine vessels & aircraft            |                                  |
| Marine vessels                       | 20 years                         |
| Aircraft                             | 20 years                         |
| Equipment & machinery                |                                  |
| Heavy machinery and equipment        | 20 years                         |
| Snow removal equipment               | 10 years                         |
| Office/other machinery and equipment | 10 years                         |
| Vehicles                             | 5 years                          |
| Computer hardware                    | 4 years                          |
| Infrastructure                       |                                  |
| Roads                                | 20 years                         |
| Airstrips                            | 20 years                         |
| Marine facility infrastructure       | 20 years                         |
| Other infrastructure assets          | 20 years                         |
| Land                                 | indefinite                       |
| Bridges                              | 40 years                         |
| Computer software                    | 7 years                          |

The above useful lives reflect the policies of the Consolidated Revenue Fund. Amortization reported by other organizations included in the Government reporting entity is recorded in these statements as per the amortization policies of these other organizations. These policies may differ from those identified above.

**5. Historical or Cultural Assets**

In accordance with current accounting standards, certain assets which have historical or cultural value belonging to the Province are not included in this schedule. Such assets consist of paintings, sculptures, historical documents, and historical and cultural artifacts.

**6. Intangible and Inherited Assets**

Intangible assets and items inherited by right of the Crown, such as Crown lands, forest, and mineral resources, are not recognized as tangible capital assets in accordance with current accounting standards.

**7. Leased Assets**

The gross amount of leased tangible capital assets is \$67.4 million (31 March 2010 - \$77.3 million), amortization expense is \$2.5 million (31 March 2010 - \$3.0 million) and accumulated depreciation is \$48.3 million (31 March 2010 - \$54.4 million). These are included in the appropriate category in the schedule.



TANGIBLE CAPITAL ASSETS (continued)

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**8. Expropriated Assets**

In December 2008, the Province passed legislation entitled *Abitibi-Consolidated Rights and Assets Act*, to expropriate certain rights and assets from Abitibi-Consolidated. The intent of this Act was to return to the Province rights relating to timber and water use, as well as assets and land associated with the generation of electricity enabled by water use rights. As a result of the expropriation, the Province also assumed responsibility of other assets associated with the pulp and paper mill. While the Province has licensed Nalcor Energy to manage and operate the hydro electricity generating assets on behalf of the Province, no decision has been made on whether the assets will continue to be held by the Province, or transferred to Nalcor Energy or other parties. Nalcor Energy is operating these electricity generating assets on a cost recovery basis and with revised power purchase rates now applying to these facilities. As the value of the electricity generating assets expropriated, and their ultimate use, have not been determined, any payments related to subsection 10.(2) of the Act have been recorded as tangible capital assets. \$138.3 million (\$126.5 million, net) has been recorded as the cost of the electricity generating assets for the fiscal year ended 31 March 2011 and are included in the infrastructure category as an addition. As the value of the non-electricity generating assets expropriated, and their ultimate future use have not been determined, they have been recorded as tangible capital assets at a nominal amount.

## SUMMARY FINANCIAL STATEMENTS

Schedule 10

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Revenue by Source**  
**For the year ended 31 March 2011**  
**with comparative figures for 2010**

|  | Actuals<br>2011  | Actuals<br>2010  |
|--|------------------|------------------|
|  | (\$000)          | (\$000)          |
| Provincial Sources   |                  |                  |
| Taxation   |                  |                  |
| Personal income tax .....                                      | 886,797          | 817,378          |
| Sales tax .....  | 799,850          | 703,975          |
| Corporate income tax .....                                     | 532,588          | 594,935          |
| Mining and mineral rights tax .....                            | 228,076          | 84,849           |
| Gasoline tax .....   | 168,902          | 155,391          |
| Other .....  | 276,157          | 244,449          |
|  | <u>2,892,370</u> | <u>2,600,977</u> |
| Investment   |                  |                  |
| Sinking fund earnings .....                                    | 52,743           | 51,023           |
| Interest .....   | 33,110           | 25,834           |
| Other .....  | 127,643          | 132,930          |
|  | <u>213,496</u>   | <u>209,787</u>   |
| Fees and Fines   |                  |                  |
| Fees .....   | 257,570          | 232,233          |
| Fines .....  | 24,493           | 24,710           |
|  | <u>282,063</u>   | <u>256,943</u>   |
| Offshore royalties .....                                       | 2,399,444        | 2,121,311        |
| Other .....  | 376,808          | 371,380          |
| Total Provincial Sources .....                                 | <u>6,164,181</u> | <u>5,560,398</u> |
| Federal Sources  |                  |                  |
| Atlantic Accord (1985) .....                                   | 641,862          | 465,288          |
| Health and social transfers .....                              | 597,506          | 686,317          |
| Cost-shared programs .....                                     | 474,922          | 355,771          |
| Other .....  | 49,195           | 38,066           |
| Total Federal Sources .....                                    | <u>1,763,485</u> | <u>1,545,442</u> |
| Net income of government business enterprises - see note ..... | 209,513          | 190,938          |
| Total: Revenue by Source .....                                 | <u>8,137,179</u> | <u>7,296,778</u> |

**NOTE**

See Schedule 4 for a breakdown by entity.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Expenses by Department For the year ended 31 March 2011 with comparative figures for 2010

|   | Actuals<br>2011         | Actuals<br>2010         |
|---|-------------------------|-------------------------|
|   | (\$000)                 | (\$000)                 |
| General Government Sector and Legislative Branch    |                         |                         |
| General Government Sector                           |                         |                         |
| Consolidated Fund Services .....                    | 381,578                 | 421,598                 |
| Executive Council .....                             | 106,532                 | 98,272                  |
| Finance .....                                       | 776,237                 | 816,244                 |
| Government Services .....                           | 42,625                  | 39,234                  |
| Labrador and Aboriginal Affairs .....               | 4,230                   | 4,445                   |
| Public Service Commission .....                     | 5,190                   | 4,971                   |
| Transportation and Works .....                      | 466,472                 | 434,970                 |
| Legislative Branch                                  |                         |                         |
| Legislature .....                                   | 22,238                  | 22,685                  |
|   | <u>1,805,102</u>        | <u>1,842,419</u>        |
| Resource Sector                                     |                         |                         |
| Business .....                                      | 6,398                   | 6,772                   |
| Environment and Conservation .....                  | 71,938                  | 87,946                  |
| Fisheries and Aquaculture .....                     | 23,878                  | 20,699                  |
| Innovation, Trade and Rural Development .....       | 44,897                  | 80,783                  |
| Natural Resources .....                             | 204,376                 | 138,982                 |
| Tourism, Culture and Recreation .....               | 66,549                  | 68,556                  |
|   | <u>418,036</u>          | <u>403,738</u>          |
| Social Sector                                       |                         |                         |
| Child, Youth and Family Services .....              | 152,401                 | 1,946                   |
| Education .....                                     | 1,399,777               | 1,452,153               |
| Health and Community Services .....                 | 2,662,206               | 2,620,164               |
| Human Resources, Labour and Employment .....        | 475,426                 | 389,984                 |
| Justice .....                                       | 222,404                 | 221,259                 |
| Municipal Affairs .....                             | 256,372                 | 259,727                 |
| Newfoundland and Labrador Housing Corporation ..... | 147,578                 | 137,963                 |
|   | <u>5,316,164</u>        | <u>5,083,196</u>        |
| Total: Expenses by Department .....                 | <u><u>7,539,302</u></u> | <u><u>7,329,353</u></u> |

#### NOTE

Expenses by Department include expenses by organizations in the Government reporting entity which report to that department.

## SUMMARY FINANCIAL STATEMENTS

Schedule 12

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Expenses by Object**  
**For the year ended 31 March 2011**  
**with comparative figures for 2010**

|  | Actuals<br>2011<br>(\$000) | Actuals<br>2010<br>(\$000) |
|--|----------------------------|----------------------------|
| Salaries and employee benefits .....                           | 3,375,438                  | 3,236,591                  |
| Operating costs .....  | 1,329,688                  | 1,316,017                  |
| Grants and subsidies .....                                     | 1,231,324                  | 1,178,472                  |
| Debt expenses .....  | 837,058                    | 890,431                    |
| Professional services .....                                    | 423,442                    | 407,308                    |
| Amortization and loss on sale of tangible capital assets ..... | 244,186                    | 203,255                    |
| Property, furnishings and equipment - see note .....           | 96,964                     | 89,489                     |
| Valuation allowances .....                                     | <u>1,202</u>               | <u>7,790</u>               |
| Total: Expenses by Object .....                                | <u><u>7,539,302</u></u>    | <u><u>7,329,353</u></u>    |

**NOTE**

This amount includes expenses for property, furnishings and equipment that do not meet the established definition or thresholds for tangible capital assets.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Revenue and Expense by Sector For the year ended 31 March 2011

|   | General<br>Government<br>Sector and<br>Legislative<br>Branch | Resource<br>Sector | Social<br>Sector   | Total            |
|---|--|--------------------|--------------------|------------------|
|   | (\$000)  | (\$000)            | (\$000)            | (\$000)          |
| <b>REVENUE</b>  |  |                    |                    |                  |
| Provincial  |  |                    |                    |                  |
| Taxation .....  | 2,931,252  | 45                 | -                  | 2,931,297        |
| Investment .....  | 179,669  | (157)              | 33,984             | 213,496          |
| Fees and Fines .....  | 140,073  | 47,190             | 94,800             | 282,063          |
| Offshore Royalties .....                                    | -  | 2,399,444          | -                  | 2,399,444        |
| Other .....   | 39,579   | 85,617             | 260,429            | 385,625          |
| Government of Canada .....                                  | 1,294,599  | 17,547             | 451,339            | 1,763,485        |
|   | 4,585,172  | 2,549,686          | 840,552            | 7,975,410        |
| Net income of government business enterprises .....         | 132,013  | 77,500             | -                  | 209,513          |
| <b>Total Sector Revenue</b> - note 2 .....                  | <b>4,717,185</b>   | <b>2,627,186</b>   | <b>840,552</b>     | <b>8,184,923</b> |
| <b>EXPENSE</b>  |  |                    |                    |                  |
| Salaries and employee benefits .....                        | 582,545  | 111,413            | 2,720,038          | 3,413,996        |
| Operating costs .....                                       | 321,981  | 145,454            | 865,638            | 1,333,073        |
| Grants and subsidies .....                                  | 21,738   | 104,774            | 1,110,613          | 1,237,125        |
| Debt expenses .....   | 765,014  | 17,310             | 54,734             | 837,058          |
| Professional services .....                                 | 30,045   | 12,364             | 381,033            | 423,442          |
| Amortization and loss on sale of tangible capital assets .. | 89,060   | 20,443             | 134,683            | 244,186          |
| Property, furnishings and equipment .....                   | (16)   | 4,107              | 92,873             | 96,964           |
| Valuation allowances .....                                  | -  | 5,725              | (4,523)            | 1,202            |
| <b>Total Sector Expense</b> - note 3 .....                  | <b>1,810,367</b>   | <b>421,590</b>     | <b>5,355,089</b>   | <b>7,587,046</b> |
| Sector Results - before adjustments .....                   | 2,906,818  | 2,205,596          | (4,514,537)        | 597,877          |
| Inter-Sector Eliminations .....                             | (33,662)   | 3,554              | 30,108             | -                |
| Annual Surplus (Deficit) .....                              | <b>2,873,156</b>   | <b>2,209,150</b>   | <b>(4,484,429)</b> | <b>597,877</b>   |

See accompanying notes.

## SUMMARY FINANCIAL STATEMENTS

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**NOTES TO THE SCHEDULE OF REVENUE AND EXPENSE BY SECTOR**  
**For the year ended 31 March 2011**

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**1. Sectors**

The sectors identified above are consistent with the presentation of the Consolidated Statement of Operations and the 2010-11 Estimates. Each sector includes the revenues and expenses of the applicable departments and the organizations in the Government reporting entity which report to their respective department. Certain amounts have been allocated on a systematic basis. Refer to Schedule 11 - Expenses by Department for a list of departments included within each sector.

**2. Sector Revenue**

Sector revenues include revenues generated from within the Government reporting entity. These inter-sector transactions are eliminated upon consolidation. Total eliminations pertaining to revenues amount to \$47.7 million resulting in total revenue of \$8,137.1 million as per the Consolidated Statement of Operations.

**3. Sector Expense**

Sector expenses include expenses incurred from within the Government reporting entity. These inter-sector transactions are eliminated upon consolidation. Total eliminations pertaining to expenses amount to \$47.7 million resulting in total expense of \$7,539.3 million as per the Consolidated Statement of Operations.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Reconciliation of Budgetary Contribution (Requirement) to Consolidated Accrual Results For the year ended 31 March 2011 with comparative figures for 2010

|   | Actuals<br>2011<br>(\$000) | Actuals<br>2010<br>(\$000) |
|---|----------------------------|----------------------------|
| Budgetary Contribution (Requirement) .....                    | 452,931                    | 8,934                      |
| Surplus (Deficit) - Actuals (consolidated accrual) .....      | <u>597,877</u>             | <u>(32,575)</u>            |
| Difference - note 1 .....                                     | <u>(144,946)</u>           | <u>41,509</u>              |
| The difference is comprised of the following:                 |                            |                            |
| Consolidated Revenue Fund - note 2:                           |                            |                            |
| Sinking fund earnings .....                                   | (52,197)                   | (50,366)                   |
| Accrued retirement costs - interest .....                     | 378,320                    | 408,030                    |
| Accrued retirement costs - other .....                        | 225,311                    | 253,460                    |
| Amortization of foreign exchange gains/losses .....           | (19,067)                   | (1,973)                    |
| Other debt expenses .....                                     | 9,728                      | (19,421)                   |
| Bad debt expenses .....                                       | 2,684                      | 5,563                      |
| Amortization expense related to tangible capital assets ..... | 125,414                    | 94,219                     |
| Tangible capital asset acquisitions/adjustments - net .....   | (379,625)                  | (238,087)                  |
| Inventories of supplies .....                                 | (2,474)                    | (4,154)                    |
| Accrued revenues and expenses .....                           | <u>(251,378)</u>           | <u>(358,056)</u>           |
|   | 36,716                     | 89,215                     |
| Other entities - note 3:                                      |                            |                            |
| General Government Sector and Legislative Branch .....        | (21,649)                   | (5,772)                    |
| Resource Sector .....   | (78,032)                   | (61,990)                   |
| Social Sector .....   | <u>(81,981)</u>            | <u>20,056</u>              |
|   | <u>(181,662)</u>           | <u>(47,706)</u>            |
| Difference .....  | <u>(144,946)</u>           | <u>41,509</u>              |

See accompanying notes.

## SUMMARY FINANCIAL STATEMENTS

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**NOTES TO THE RECONCILIATION OF BUDGETARY CONTRIBUTION (REQUIREMENT)  
TO CONSOLIDATED ACCRUAL RESULTS  
For the year ended 31 March 2011**

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**1. Reconciliation of Budgetary Contribution (Requirement) to Consolidated Accrual Results**

This schedule reconciles the budgetary contribution (requirement) of the Consolidated Revenue Fund as per the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund to the accrual surplus (deficit) on a consolidated basis. The change shown consists of year end accrual adjustments for the Consolidated Revenue Fund and accounting policy adjustments to the annual results of government organizations. The original budgeted consolidated accrual deficit for the period as per the Estimates was \$194.3 million.

**2. Consolidated Revenue Fund**

The Consolidated Revenue Fund accrual surplus for 31 March 2011 was \$416.2 million as per Volume II of the Public Accounts. The original budgeted Consolidated Revenue Fund accrual deficit for the Province of \$289.2 million was not disclosed in the 2010-11 Estimates but was obtained from internal documentation.

Sinking fund earnings represent the interest earned on the sinking funds during the year less the sinking fund income returned to the Province from the sinking funds retired.

Accrued retirement costs (interest) represent the net interest expense on the unfunded pension liability and the group health and life insurance retirement benefits.

Accrued retirement costs (other) represent primarily the employer contributions that exceeded the current service costs for pensions as well as group health and life insurance retirement benefits.

Amortization of foreign exchange gains/losses represent the amortization of the unrealized foreign exchange gains/losses.

Other debt expenses represent primarily the change in the accrued interest expense on the debt and capital leases.

Bad debt expenses represent the net increase in the allowance for doubtful accounts receivable, loans, investments, and guarantees made by the Province.

Accrued revenues and expenses represent all other changes in revenues and expenses during the year (e.g. equalization, sales tax, salaries and benefits).

**3. Other Entities**

This represents the accrual surplus (deficit) of all other government organizations after material adjustments have been made to conform to the accounting policies of the Province. The General Government Sector and Legislative Branch and the Resource Sector adjustments include the above and reverses the cash received by the Province and records the net income for Newfoundland and Labrador Liquor Corporation and Nalcor Energy respectively.



## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Government Reporting Entity For the year ended 31 March 2011

#### GOVERNMENT ORGANIZATIONS

|            |  |
|------------|--|
|            | Board of Commissioners of Public Utilities                                     |
|            | Business Investment Corporation  |
|            | C.A. Pippy Park Commission   |
|            | Central Regional Health Authority  |
| D          | Chicken Farmers of Newfoundland and Labrador                                   |
| D - note 1 | Churchill Falls (Labrador) Corporation Trust                                   |
|            | College of the North Atlantic  |
| J          | Conseil scolaire francophone provincial de Terre-Neuve et Labrador             |
|            | Consolidated Revenue Fund  |
| D          | Credit Union Deposit Guarantee Corporation                                     |
| JU         | Dairy Farmers of Newfoundland and Labrador                                     |
| note 2     | Eastern Regional Health Authority  |
| J - note 3 | Eastern School District  |
| D          | Egg Producers of Newfoundland and Labrador                                     |
|            | Heritage Foundation of Newfoundland and Labrador                               |
|            | Labrador-Grenfell Regional Health Authority                                    |
| J          | Labrador School Board  |
|            | Livestock Owners Compensation Board  |
| A          | Marble Mountain Development Corporation  |
|            | Memorial University of Newfoundland  |
|            | Multi-Materials Stewardship Board  |
|            | Municipal Assessment Agency Inc.   |
|            | Newfoundland and Labrador Arts Council   |
|            | Newfoundland and Labrador Centre for Health Information                        |
|            | Newfoundland and Labrador Crop Insurance Agency                                |
|            | Newfoundland and Labrador Farm Products Corporation                            |
|            | Newfoundland and Labrador Film Development Corporation                         |
|            | Newfoundland and Labrador Housing Corporation                                  |
|            | Newfoundland and Labrador Immigrant Investor Fund Limited                      |
|            | Newfoundland and Labrador Industrial Development Corporation                   |
|            | Newfoundland and Labrador Legal Aid Commission                                 |
|            | Newfoundland and Labrador Municipal Financing Corporation                      |
|            | Newfoundland and Labrador Sports Centre Inc.                                   |
|            | Newfoundland Hardwoods Limited   |
|            | Newfoundland Ocean Enterprises Limited   |
| J          | Nova Central School District   |
|            | Provincial Advisory Council on the Status of Women - Newfoundland and Labrador |
|            | Provincial Information and Library Resources Board                             |
| D          | Public Accountants Licensing Board   |
|            | Public Health Laboratory   |
|            | Research and Development Corporation of Newfoundland and Labrador              |
|            | Student Loan Corporation of Newfoundland and Labrador                          |
|            | The Rooms Corporation of Newfoundland and Labrador                             |
| note 4     | Western Regional Health Authority  |
| J          | Western School District  |

## SUMMARY FINANCIAL STATEMENTS

### GOVERNMENT REPORTING ENTITY (continued)

#### GOVERNMENT BUSINESS ENTERPRISES

|   |  |
|---|--|
| D | Nalcor Energy                                |
| F | Newfoundland and Labrador Liquor Corporation |

#### LEGEND

|    |  |
|----|--|
| A  | This entity has a year end of 30 April.  |
| D  | These entities have a year end of 31 December.   |
| J  | These entities have a year end of 30 June.   |
| JU | This entity has a year end of 31 July.   |
| F  | This entity has a floating year end to align with its four 13 week reporting periods. The fiscal year end of the entity will end on the first Saturday of April each year. |

#### NOTES

- 1 Churchill Falls (Labrador) Corporation Trust is included in the Government reporting entity for consolidation since, in substance, it is closely held and controlled by the Province and is administered by senior Government officials.
  
- 2 Eastern Regional Health Authority controls a number of foundations/associations which have not been consolidated within their financial statements. In accordance with Public Sector Generally Accepted Accounting Principles, these organizations have been included within the Province's 2010-11 Consolidated Summary Financial Statements. These entities are as follows: 1) General Hospital Hostel Association; 2) Health Care Foundation of St. John's Inc; 3) Janeway Children's Hospital Foundation; 4) Northwest Rotary - Janeway Hostel Corporation; 5) Ever Green Environmental Corporation; 6) Dr. H. Bliss Murphy Cancer Care Foundation; 7) Discovery Health Care Foundation Inc.; 8) Trinity-Conception-Placentia Health Foundation Inc.; 9) The Burin Peninsula Health Care Foundation Inc.; 10) Blue Crest Cottages; 11) Golden Heights Manor Cottages; 12) Lions Manor Inc.; and 13) TCRHB Housing Complex Inc.
  
- 3 Eastern School District controls a number of foundations/associations which have not been consolidated within their financial statements. In accordance with Public Sector Generally Accepted Accounting Principles, these organizations have been included within the Province's 2010-11 Consolidated Summary Financial Statements. These entities are as follows: 1) Eastern Education Foundation Inc.; and 2) Newfoundland International Student Education Program Inc.
  
- 4 Western Regional Health Authority controls a number of associations which have not been consolidated within their financial statements. In accordance with Public Sector Generally Accepted Accounting Principles, these associations have been included within the Province's 2010-11 Consolidated Summary Financial Statements. These entities are as follows: 1) Gateway Cottages Association-Cottages Project; 2) Gateway Cottages Association, Apartment Project; 3) Inter-faith Home for Senior Citizens - Cottages #3; 4) Bay St. George 8 Unit Cottages & Emile Benoit House; 5) Inter-Faith Home for Senior Citizens-Cottages #1 & #2; and 6) Bay St. George Senior Citizens Home-30 Unit Cottages.